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DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 5205

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1987, AND FOR OTHER PURPOSES

PART 2 (Pages 1-766)

CONSOLIDATED RAIL CORPORATION [CONRAIL]
DEPARTMENT OF TRANSPORTATION
NATIONAL RAILROAD PASSENGER CORPORATION [AMTRAK]
U.S. RAILWAY ASSOCIATION
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

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DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, APRIL 9, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:46 a.m. in room SD–138, Senate Dirksen Building, Hon. Mark Andrews (chairman) presiding.

Present: Senators Andrews, D'Amato, and Chiles.

NATIONAL RAILROAD PASSENGER CORPORATION [AMTRAK]

STATEMENT OF W. GRAHAM CLAYTOR, JR., PRESIDENT AND CHAIRMAN OF THE BOARD

ACCOMPANIED BY:

CHARLES W. HAYWARD, VICE PRESIDENT, FINANCE, AND CHIEF FINANCIAL OFFICER

JAMES H. ENGLISH, VICE PRESIDENT, GOVERNMENT AND PUBLIC AFFAIRS

OPENING REMARKS

Senator ANDREWS. The subcommittee will come to order. Today we will hear from the National Railroad Passenger Corporation [Amtrak]. We are privileged to have Graham Claytor with us.

My apologies for being late. Unfortunately, around this place they have scheduled too many hearings at the same time. I was just with the Secretary of Education, and might I say, Mr. Claytor, I do not think he is doing nearly as good a job in his field as you are doing in yours. This will be a much more pleasant hearing.

We are glad to have you here. We have your statement. We would be glad to have you summarize it in any way you wish. It will be included as though you had uttered every word. Welcome to the subcommittee.

We have opening statements from Senators D'Amato and Chiles that we would like to put in the record before we proceed with Mr. Claytor's statement.

[The statements follow:]

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, I appreciate this opportunity to offer my remarks on the administration's proposed fiscal year 1987 budget for the National Railroad Passenger Corporation [Amtrak] and the Federal Railroad Administration [FRA]. I also would like to welcome John Riley, Administrator of FRA, and Graham Claytor, President of Amtrak.

In 1970, when Congress created Amtrak, its goal was to preserve passenger rail service in this country. Each year Congress has repelled administration attempts to eliminate Federal funding for Amtrak. We have done so to protect our investment of over $11 billion to rebuild transcontinental passenger rail service. Again this year we have been presented with a budget that proposes no funds for Amtrak. I will oppose this effort to kill Amtrak because I believe that it is good Federal policy to continue to support a national passenger rail system.

Not so long ago, Americans found themselves waiting in long gas lines and paying hefty prices to fill up their car tanks. At that time, we recognized the value of transportation services like Amtrak and public transit, and we as a nation made a commitment to support them. Although foreign oil prices have taken a drastic downturn in recent months, I do not think it is prudent to look at energy conservation as a fad of the seventies that no longer has a place in our transportation programs. If we allow Amtrak to be destoryed, we will not again have the chance to put it back together. Some of the more heavily traveled routes might be sold and privately operated, but others would end up as abandoned track—jobs would be lost, and travelers would be deprived of transportation alternatives.

Amtrak operates 55 trains through the State of New York. The State contributed over $1.2 million during fiscal year 1985 to maintain Amtrak service between Syracuse and Niagara Falls and between Albany and Montreal. Amtrak's economic contribution to the State includes the employment of 2,360 New York residents whose annualized earnings total about $58.2 million. In fiscal year 1985, Amtrak spent over $16 million for goods and services in New York. In addition, Amtrak contracts with private railroads who employ 278 New Yorkers directly involved in the provision of rail passenger service. Amtrak pays about $14.76 million for these employees and other services.

Last year we cut Amtrak funding from $684 million to $616 million—a 10-percent reduction. That reduction represented a significant contribution from Amtrak to our effort to reduce the Federal deficit. All transportation programs must be willing to submit to fiscal belt-tightening wherever possible. Reasonable cuts can yield the benefits of continued service coupled with more efficient operation; however, we must be careful not to cut too close to the bone or we will risk losing it all.

The proposed FRA budget requests $50.5 million for railroad safety, railroad research, economic analysis, and administrative costs. In addition to deleting funding for Amtrak, the proposal also fails to request funds for other rail subsidy programs, such as the Northeast Corridor Improvement Program funded last year at $12.5 million.

Mr. Chairman, I thank you for permitting me to make my remarks. I look forward to hearing the testimony of today's witnesses.

STATEMENT OF SENATOR LAWTON CHILES

I would like to welcome Graham Claytor, President of Amtrak, and John Riley, Administrator of the Federal Railroad Administration, to this morning's hearing.

The administration has again proposed the elimination of funding for Amtrak. I expected that we will hear two widely different points of view here this morning. Last year when the abolition of Amtrak was proposed, a number of questions about the real cost of such a step were raised. These related to such issues as the multibillion-dollar cost of labor protection, the added costs to be borne by freight and commuter carriers, and the ability of the other transportation modes to absorb some 17,000 additional passengers each day in tlhe Northeast corridor.

I continue to believe that the elimination of Amtrak would be short-sighted and this year the Senate Budget Committee reported out Amtrak's continuation without great debate. If Amtrak were eliminated, the United States would become the only modern developed country without a passenger rail system and once dismantled, it would be very costly to put it together again.

I have heard of the possible elimination by Amtrak of the reservation office in Jacksonville and the impact that would have on the 140-plus employees who serve in that office. I hope we can find out what Amtrak's plans are in this regard as it has caused some confusion and anxiety in Jacksonville.

I look forward to hearing the opening statements of all four witnesses.

INTRODUCTION OF ASSOCIATES

Mr. CLAYTOR. Thank you, Mr. Chairman. It is a pleasure to appear before this committee again, as always.

I have with me on my right our Vice President, Finance, and Chief Financial Officer, Charles W. Hayward; and on my left, Vice President, Government and Public Affairs, James H. English.

GENERAL OVERVIEW

Rather that attempting to summarize my statement which will be in the record, I would just like to make three or four brief points in my opening statement.

First, Mr. Chairman, my highest priority is to make Amtrak more self-sufficient. The real test for this is our revenue-to-cost ratio: 58 percent in 1985, which was up from 42 percent some 10 years ago; 61 percent this year and 63 percent next year in fiscal year 1987, and I intend to make both of those.

Second, this has been made possible by increased efficiency, increased revenues from better service and broader travel agent coverage, and a breakthrough in our labor agreements. We have just recently concluded agreements to take over train and engine crews on passenger trains throughout the country on an hourly wage basis similar to the Northeast corridor agreement we made several years ago.

This eliminates mileage as a basis of pay, as well as a lot of arbitrary payments, an outdated system that has been entrenched in the railroad business for some generations.

We will start this takeover next week, but it will take 18 months to 2 years to implement. When completed, this should save us $20 to $30 million a year.

Third, last year I said we could manage to get by in 1986 with a 10-percent cut from the 1985 appropriation of $684 million which would come to $616 million for 1986. With Gramm-Rudman, this figure was later cut to $591 million. That was a reduction of over $100 million from the previous year if we allow for inflation.

We will get by this time, but only by using no appropriated funds for capital, by some cutbacks made in our maintenance cycles, by achieving such other internal efficiencies as we can manage quickly, by refusing to consider any new 403(b) proposals not previously committed, and finally, by making a number of reductions in train frequencies on different routes.

Some of the maintenance cycle reductions are turning out to be counterproductive and next year we will have to restore them, but we will manage to squeeze by this year. For fiscal year 1987, we will need as a minimum the $606 million authorized by the Budget Reconciliation Act which the President has recently signed.

Fourth and finally, Mr Chairman, I should call attention to our additional request for further appropriation of Northeast Corridor Improvement Project funds that have been authorized but not yet appropriated.

The final fiscal year 1986 appropriation in this category was just $12 million, cut from $22.5 million that had been proposed earlier.

Our fiscal year 1986 budget request, in an effort to regain this lost ground, asks for $24 million for critical designated projects in the Northeast corridor, including particularly the purchase and installation of more concrete ties.

PREPARED STATEMENT

Mr. Chairman, I could go on at length about what we are continuing to try to do to improve our operation both financially and in the quality of our service, but I think it would be more productive to do so in answer to any questions that you or the members of the committee may have.

Thank you.

Senator ANDREWS. Thank you, Mr. Claytor. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF W. GRAHAM CLAYTOR, JR.

My name is W. Graham Claytor, Jr. I am President and Chairman of the Board of the National Railroad Passenger Corporation (Amtrak). I appreciate the opportunity to appear before you to discuss Amtrak's fiscal year 1987 budget.

I am hopeful that we will soon progress beyond the policy debate in this country over whether to continue federal support for intercity rail passenger service. Last year, the importance of our rail passenger system and the amount of support needed to sustain it were thoroughly debated during the federal budget process, and Congress voted on several occasions to reject proposals to eliminate or severely curtail funding for Amtrak. It also did something that has not happened since 1980, and that was to enact a three-year authorization for Amtrak as part of the Consolidated Omnibus Budget Reconciliation Act of 1985.

The debate regarding Amtrak's continued existence is counterproductive because it sends the wrong message to the travelling public and to the employees who have done so much to make rail a productive and viable mode of travel once again. Amtrak now needs to focus all of its energies on the task that Congress has laid out -- and that is providing the most efficient and comprehensive rail passenger system possible while reducing the corporation's dependence on the federal government. I believe we are well on our way toward accomplishing this objective and hope that we can count on your continued support.

My statement today will cover the following issues:

- o Amtrak is not the cause of the federal budget deficit.
- o The corporation is successfully accomplishing the goals Congress set, much faster than required. Service quality and financial performance continue to improve, and Amtrak leads the entire rail industry in pioneering efforts to improve productivity and technology.

- A significant further reduction in federal funding for Amtrak will result in the termination of all intercity rail passenger service and would ultimately cost the federal government considerably more than the appropriation that Amtrak is requesting to operate its present services.
- Amtrak can continue to work in cooperation with cities and states to improve and even expand rail passenger service if Congress provides the proper legislative tools and the necessary minimum funding.

FEDERAL BUDGET DEBATE

I do not believe that anyone could credibly suggest that funding for Amtrak, which amounted to 2.5 percent of the transportation budget, or 7/100s of one percent of the entire FY86 federal budget, is a main contributor or even an important factor in causing the deficit. Unfortunately, much of the debate on the budget is often characterized by provocative one-line statements, such as, "Amtrak could operate for 508 years on what the Pentagon receives," or conversely, "the Pentagon spends in 18 hours what it takes in public funds to operate a national rail passenger system for a year." I don't believe these types of phrases add much to the policy debate, and although it is sometimes easy to think in those terms, it really misses the point. I would prefer that Congress look at what we have done.

The fact is that the causes of growth in federal spending do not include Amtrak. Amtrak's FY86 funding level is its lowest since 1977 and federal grants to the corporation have decreased by 34 percent in the last 5 years. The changing patterns of federal spending can be demonstrated even more dramatically when you compare federal outlays in FY81 with those projected in FY86. For those two years, Amtrak's dollar outlays from the U.S. Treasury will have declined while outlays for other functions of the budget will have increased substantially. Total federal outlays will be up 45 percent. Defense will have increased by 71 percent. Total transportation was up 18 percent. But Amtrak was down 18 percent.

PERFORMANCE IMPROVEMENTS

My highest priority has been to make Amtrak more self-sufficient. There is no group of persons more eager to reduce Amtrak's dependence on federal appropriations than Amtrak employees, because the less government support, the less vulnerable the corporation will be during these cyclical budget crises. This is an objective Amtrak has been vigorously pursuing with some success for the last five years. We plan to continue these efforts with equal determination; as a practical matter, however, there is only so much that can be achieved in any one year.

Amtrak's revenue-to-cost ratio is the best available indicator of the corporation's efforts to improve its level of self-sufficiency. As such, it is the legislatively mandated benchmark by which our financial improvement is judged. It reflects Amtrak's efforts to make full use of all available resources to offset its passenger train operating expenses. In 1976, Amtrak covered 42 percent of its total costs through revenues, compared to 61 percent projected for FY86. We have submitted a fiscal year 1987 budget which assumes we will cover 63 percent of our costs or better in that year, and I have every intention of meeting that goal as well.

Amtrak's revenues are also covering a greater percentage of total system short-term avoidable costs each year. A few years ago, only 62 percent of short-term avoidable costs were covered by revenues. Based on first quarter results for FY86 we expect that figure to be 95 percent -- a further substantial improvement over last year -- and my objective is to cover all short-term avoidable costs in the very near future.

There is no secret formula to insure continued improvement;

it's simply the result of every Amtrak employee performing his or her job a little better every day. These incremental gains may not seem like much when examined separately, but in total, they account for the dramatic improvements that have taken place on the Amtrak system. Compare some of the internal performance measures and the improvement that took place between FY84 and FY85: for example, our reservation and sales office employees handled 20.3 calls per man-hour, up from 19.9; the passenger services group reduced the cost of condemned food items as a percent of the cost of goods sold to 3.2 percent, down from 4.8 percent; car maintenance employees improved the availability of our passenger cars from 88.2 percent to 89.8 percent; and thousands of employees who deal with the customer on a day-to-day basis performed their duties so as to reduce complaints to 6.6 per 10,000 riders, down from 7.5.

These may seem to be small accomplishments, and most will never appear as headline items in Amtrak's annual report, but they all add up and represent the types of achievements that are turning this company around. For our customers, the hard work and innovation by employees simply translate into better service. For our principal stockholder, the federal government, it means a better bottom line and lower public funding needs. I am by no means satisfied that we are doing as well as we can or should, but we are continuing to improve.

Amtrak will continue to evaluate all of its routes and every aspect of our operation to make changes where necessary. We have become more flexible in order to respond quickly to new developments in the travel industry, which has undergone dramatic changes as the result of air deregulation and now decisions by the major bus companies to begin to reduce scheduled service. By adding frequencies where needed, or paring away underutilized train frequencies, or shifting schedules to meet peak demands, we have improved and will be able further to improve the financial performance of our route system.

Fiscal year 1985 was the best year in the history of the corporation, and Amtrak achieved record and near-record growth in almost every aspect of its financial and operating performance. In Fiscal Year 1985:

- o Revenues reached $825.8 million, up 8.8 percent over 1984 and a record high for the company-as was the revenue-to-cost ratio of .58.
- o Total passenger miles per train mile -- a key volume indicator which measures the number of passengers carried per train mile -- was 159, the highest in Amtrak's history.
- o System wide ridership was 20.8 million up 4.2 percent from 1984, the third highest in Amtrak's history and the highest since 1980, a year affected by a gasoline shortage. Ridership in the Washington-New York-Boston Corridor, reached an all-time record of 11,236,639 passengers, up 4.1 percent over last year.
- o Total passenger miles for the Amtrak system were 4.8 billion up 6 percent from 1984 and the second highest in Amtrak's history.
- o Amtrak's overall on-time performance exceeded 80 percent for the third consecutive year.

Fiscal year 1986 first quarter results show continuing improvement in passenger revenue, which is up 11.4 percent. Total revenue is up 8.4 percent, and passenger miles have increased 14.4 percent compared to the same period in fiscal year 1985. We continue to make travel on Amtrak more attractive: new train services, refinements to existing services, special promotions and incentive fares, and a record of reliable service.

The Northeast Corridor remains a major success story for Amtrak, much of which can be directly attributed to the capital investment made by the Federal Government to improve this very important rail line. Amtrak is now a dominant carrier in the markets served in the Northeast Corridor. In FY85, Amtrak carried two-thirds of the 24,500 people per day who travelled by air or rail among the Northeast Corridor cities of New York, Newark, Philadelphia, Wilmington, Baltimore and Washington. These were intercity travellers and not daily commuters. Even if you segregate those who travelled between New York and Washington only, Amtrak handled almost 3,000, or 31 percent of the 9,800 daily air/rail passengers. I would like to underline those figures, not only because they testify to Amtrak's success in attracting riders to our service, but also because they bear upon the public policy decision that you have been asked to make. Amtrak now carries twice as many people among the cities between Washington and New York as all the airlines combined. We carry almost half as many passengers simply between the Washington and New York endpoints as all the airlines combined. To shut down Amtrak would not simply strain the capacity of airlines and airports to handle this traffic; it would overwhelm it. We have also made a comeback on the north end of the corridor; FY 1985 figures indicate a 56 percent increase in ridership over FY 1984 and a 50 percent increase in revenue on the New York to Boston segment. Further improvements to terminal trackage, stations and parking facilities now underway will add to the convenience of rail travel and enable Amtrak to compete more effectively in these important travel markets.

Many of Amtrak's most significant achievements in 1985 will be reflected in the performance measures of future years. Pursuant to agreements reached with several major air carriers, Amtrak tickets and reservations are now available through the Trans World Airlines and American Airlines computerized reservations and ticketing systems and should soon be available through the United Airlines automated system. Future plans include additional system links with Delta and Eastern Airlines. Amtrak is also now the first non-aviation transportation company to join the Airlines Reporting Corporation (ARC), which processes travel agency sales of airline tickets. Amtrak's entrance into ARC will greatly improve cash flow and enable collection of travel agent sales on a weekly basis, instead of monthly. As a consequence of these changes introduced in late FY85, the number of Amtrak-authorized travel agents has nearly doubled, and soon it will be as easy for all of the country's 27,000 travel agency locations to make Amtrak reservations and sell Amtrak tickets as it is for them to sell airline tickets.

Amtrak's goal to integrate its system with that of airlines and travel agencies will complement sales efforts by our own sales reservation agents and ticket agents, which means added convenience for passengers purchasing rail tickets. Sales by travel agents now account for over 65 percent of the ticket revenue for the major airlines and the percentage may be as high as 75 percent when you include all air carriers. There is enormous potential for Amtrak to increase sales, based on the impact travel agents have had on ticket sales in the airline industry. We estimate that Amtrak ticket sales by travel agents alone, will grow from $169 million in FY 1985 to $220 million in FY 1986 and will account for 36 percent of our transportation revenues this fiscal year.

Amtrak has also become a leader in a number of important areas in the rail industry and has pioneered efforts to improve the productivity of its workforce. Pursuant to agreements reached this winter with the Brotherhood of Locomotive Engineers (BLE) and the United Transportation Union (UTU) Amtrak will become the first and only major U. S. railroad to operate its trains nationwide under totally revised, modern work rules. Under the new agreements, Amtrak will directly employ most engineers, conductors and their assistants working in rail passenger service outside the Northeast Corridor. Amtrak took over train and engine crews in its own Washington-to-Boston rail corridor January 1, 1983 and later on Auto Train. Outside these areas train operating crews are now employed by the freight railroad over whose tracks Amtrak passenger trains operate. The transfer of operating crews to Amtrak is scheduled to begin in April and take about 18 months to two years to complete. The agreements provide that train and engine crews will no longer be compensated under the freight industry's standard of train mileage or hours of service, known as the dual basis of pay. Rather, they will be paid by Amtrak under a contractually defined standard 8-hour per day work week. The savings from the new contracts when fully implemented are estimated to be between $20 and $30 million per year.

In another related area, the Joint Labor Management Productivity Council has completed a top-to-bottom reorganization that will permit virtually every Amtrak employee nationwide to become involved in the cooperative effort. This has been accomplished by establishing a regional steering committee in every division with representatives from every participating labor organization and every department. So whether they are on board service attendants in New York, reservation sales agents in Chicago, or electricians in Los Angeles, there is someone from their organization and department to represent them and pursue their proposals before the Council. While some regional steering committees have been more effective than others, all are making progress. Since its formation in 1982 the Council has successfully developed ideas that have saved thousands of dollars while strengthening relationships among Amtrak employees. The accomplishments and ongoing work of the Council and its steering committees are described in the progress report which I am submitting as part of the record.

Improving productivity is not the only area where Amtrak is breaking new ground. Over the years, Amtrak has also made significant contributions through cooperative efforts with companies in the rail supply industry to develop and introduce new technology which has and will continue directly to benefit the entire industry. We are not conducting research projects that may or may not have some type of application in the real world. Amtrak's interest is only in promoting advances in technology, as any other business would be, that will help improve the company's operating and financial performance -- and the experience gained from these activities is being shared with the freight railroads and commuter rail authorities.

Amtrak worked closely with an electric supply company in this country to design and build its own track geometry car at our Beech Grove facility. The car is one of the first of its kind to collect data at operating speeds of more than 120 mph with on board computers that provide real-time information on track conditions. This has enabled Amtrak to respond more quickly to track problems and improve ride quality for corridor passengers while maintaining maximum safety standards. We were also the first, and remain the only, American railroad to test, introduce, and adapt to American railroad requirements, an automated track laying system and a track stabilizing system to restore the stability to the track structure following maintenance work so that trains can run at maximum speed sooner than was previously possible. Amtrak has pioneered efforts in new track design and has the largest installation of concrete ties in the United States. We have proven to the industry that this technology is suitable for both freight and high speed passenger trains. Amtrak was also the first railroad to introduce a new wheel impact detector that identifies cars with wheels requiring maintenance before they can cause damage to track or equipment. Still to be completed is a new signaling and centralized electrification and traffic control system, to be based in Philadelphia, which we are developing in conjunction with the Chrysler Corporation. When completed, it will be one of the most sophisticated systems in the world because of the complexity and diversity of our Northeast Corridor operation.

In the mechanical area, we are currently working with Brown Boveri Corporation to apply to one of our high-speed diesel-electric passenger locomotives three-phase alternating current asynchronous traction motors and associated controls, in place of the existing direct-current systems. We believe that this will improve acceleration, increase speeds and greatly reduce maintenance costs of traction motors. The Association of American Railroads is vitally interested in this project and has requested permission to test the prototype at its research facility in Pueblo, Colorado. On the basis of operations already conducted in Europe, I am confident that we will obtain good results and that this advanced propulsion system may well be included in the next generation of diesel freight locomotives built in this country.

As a matter of fact, Amtrak worked closely with General Motors Corporation to develop our current F-40 locomotive, the first light-weight four-axle diesel locomotive built in America exclusively for passenger service in the last 25 years. Unlike units designed and built during the 1940's, these locomotives have the capacity to generate 480 volt electric power to run the heat, air conditioning and electric systems in our passenger cars. This has enabled the conversion of our entire passenger car fleet from traditional axle-driven electric power and steam heat, a technology that had been in existence since the early 1900's, to head-end electric power. As anticipated, this has resulted in both increased reliability and in reduced costs. Today, the F-40 is now a standard locomotive which has been purchased "off the shelf" by several commuter authorities, and Amtrak is serving as a paid consultant for commuter operators who are now converting their passenger fleet to more reliable head-end electric power.

Finally, our new single-level prototype passenger cars have moved from the mock-up stage into actual construction at Beech Grove. Technical improvements from incorporating state of the art computer diagnostic systems to monitor the air conditioning, heating and electrical systems, to the introduction of modular construction, will allow for better quality control during construction and will reduce the cost to build and maintain the equipment. The new stainless steel car shells will be standardized, which would avoid a chronic problem that has existed in the rail supply industry for many years, and the same car shell will be used for all four car types - sleeping cars, lounge cars, dining cars and coaches. This by no means represents all that is being done to improve rail technology, but it illustrates the direction in which we are going.

IMPACT OF ZERO FUNDING

Congress has made important policy decisions to support and encourage the development of a national transportation network. These policies greatly influence our changing society and, today, more than ever, the availability of transportation, its cost and convenience set the parameters for some of the most basic decisions we make as individuals concerning where to live and work, and how to spend our leisure time. Clearly, the United States is the most mobile nation in the history of the world. Travel is now available to persons of all income levels, because of policy decisions made by this legislative body, many of which you make through the appropriations process on a year-to-year basis. We have a tendency to take this all for granted now, and don't think twice about the resources necessary to build and maintain these transportation systems as we speed down Interstate-95, fly back and forth to California in one day for a business meeting, hop on the Washington Metro to get to work, or take a high-speed Amtrak train to New York City for the weekend.

As this subcommittee knows better than any other, transportation programs took a greater percentage cut in fiscal year 1986 than any other major function of the federal government. It should be clear by now that overdoing this reduction in funding for transportation is false savings. The decisions made this year will catch up with us sooner or later, because a good transportation system is important to maintain both the health of the economy and the quality of life in this country. During the debate over the fiscal year 1986 budget, I thought we were able to demonstrate that a drastic reduction in Amtrak funding was a bad decision over the long term and and would be a tremendous immediate waste of the federal resources already invested to improve rail passenger transportation. More immediately, legislatively mandated labor protection costs mean that eliminating Amtrak would not even save outlay money during the fiscal year in which train service would be discontinued.

The $3 billion invested in Amtrak to upgrade the Northeast Corridor, purchase new rolling stock and locomotives, and essentially rebuild maintenance facilities, that are now some of the most efficient in the world, would be wiped out completely. If there were no intercity rail passenger service, our capital assets would have to be liquidated at approximately scrap value despite the fact that it would cost $6 to $9 billion today to reproduce those assets.

In addition, approximately 23,800 employees around the country, in 44 states, would lose their jobs if Amtrak were terminated. Abandonment of intercity rail passenger service would trigger provisions of agreements entered into by Amtrak and its contract railroads at the direction of Congress to protect the interests of employees adversely affected by train discontinuances. This protection agreement was consistent with other federally directed agreements between freight carriers and their employees at the time. The labor protection payments that Amtrak was required by statute to commit to pay to displaced employees will come to approximately $2.1 billion over a six-year period. So, in addition to $3 billion of investment that gets scrapped, a new liability of $2.1 billion is created. In the first year, Amtrak's liability would be about $660 million, which is actually more than our total grant for operations in FY 1986 and considerably more than we are seeking in FY 1987. In addition, the railroads over which we operate would be subject to an additional labor protection liability of about $177 million over a six-year period.

In the event Amtrak were forced into bankruptcy, the liquidation value of our assets would be totally insufficient to pay $2.1 billion of labor protection liability, quite apart from substantial other claims. Claimants would accordingly turn to the only other source of payment -- the United States Government. The Federal Government created the promise to pay labor protection, thus encouraging employees to stay with an industry that had an uncertain beginning. If it then triggered the obligation to pay labor protection by terminating Amtrak funding, and at the same time declined to give Amtrak the funds to carry out its commitment, I agree with the advice received from outside counsel that there would be very serious legal questions as to whether or not the Government was liable for this obligation. The same serious questions would be raised if

Congress tried to eliminate the labor protection obligation at the same time it was enacting legislation leading to Amtrak's bankruptcy. It is quite clear that major litigation would ensue once labor found that it could not recover these statutory benefits from Amtrak. The government might well end up paying the whole bill. The notion that this is not a problem for the Federal Government or would not impact on the deficit, is not realistic.

In addition to the labor protection liability, there would also be enormous additional costs imposed on other Northeast Corridor users such as the commuter agencies and freight railroads. Amtrak owns, maintains, and operates the Northeast Corridor. If Amtrak were forced into bankruptcy, the entire Northeast Corridor would close down, unless other users were able to pick up the costs to operate it. At the present time, all of the other users of the Corridor between New York and Washington including the Harrisburg line -- the commuter agencies, Conrail, and Delaware & Hudson -- reimburse Amtrak for avoidable costs which amount to $62 million per year for the use of that segment of railroad. If Amtrak were to stop service, it would cost these users some $227 million to maintain and operate that part of our line needed to continue current commuter and freight operations. The railroad cannot run without signals, without dispatchers, without tower operators, and without maintenance. These costs would have to be picked up in full by the remaining users. Absent Amtrak, the commuter authorities and freight railroads combined would have to increase their current contribution of $62 million by an additional $165 million to continue their operations over Amtrak lines.

If Amtrak were to go bankrupt, all operations on the New York-Washington Corridor would stop unless the commuter agencies and freight railroads who use the NEC right-of-way were able to pay the trustee of Amtrak's estate to operate the railroad on a day-to-day basis. A shutdown of the New York-Washington portion of the NEC would mean that 16,500 daily intercity passengers would have to be absorbed by other modes, in addition to the 140,000 commuter trips each day provided by local transit agencies over this Amtrak line. Absorbing only those intercity rail passengers between New York and Washington, D.C., not counting travel to and from intermediate cities, would require some 43 additional landings or takeoffs at National Airport alone, during the busiest times of day. Automobile and bus transportation is not a realistic alternative for many travellers in the NEC, especially those travelling for business.

In addition, four freight railroads use extensive portions of our right-of-way and operate over 90 through and local freight trains a day on the Corridor properties. Conrail serves 260 businesses on Amtrak-owned lines south of New York, and among its major customers are automobile plants such as those of Chrysler at Newark, Delaware, General Motors at Linden, New Jersey, and Ford at Metuchen, New Jersey. There's a similar problem on the north end between New Haven and Boston and on the Springfield segment, with some 97 industries on portions of these lines served by Conrail. The additional management and operating costs there of some $43 million would be so high in proportion to freight volume, that it is quite possible that some or even all of it might have to be abandoned. In addition, Amtrak also shares the Rhode Island-to-Boston end of the Northeast Corridor with Massachusetts Bay Transit Authority (MBTA) and provides dispatching and maintenance services for this agency's commuter operation that handles some 25,000 daily commuters in the Boston area. Elimination of Amtrak would approximately double the $4 million annual cost of these services to MBTA.

In sum, a zero Amtrak budget would create over $200 million in added annual costs that other users -- or the U.S. Government, the usual provider of last resort in critical cases like this -- would have to pay just to keep the other services running on the Corridor.

A zero Amtrak budget would also have a major impact outside the northeast. Almost 50 percent of Amtrak's riders, 75 percent of its passenger miles and two-thirds of its revenues come from its non-corridor operations, largely long-haul services. Thirty-six percent of these long-haul passengers have family incomes of under $20,000 (U.S. average family income is $28,600), and 58 percent have family incomes below $30,000, compared to 33 percent of all travellers. It is also a transportation system which is used extensively by older Americans. Thirty-five percent of non-corridor passengers are over 55 years old and 18 percent are age 65 or older.

In addition, we serve over 500 communities nationwide, more communities than all the major airlines serve together. Some 117 communities served by Amtrak have no air service and if the present Essential Air Service subsidy were terminated, that number would increase to 157. Eighty-three Amtrak-served communities have no bus service or other surface common carrier service (and this number is increasing as more scheduled intercity bus service is discontinued), and twenty-eight Amtrak-served communities have neither air nor bus service. In many areas, during severe weather, Amtrak is the only mode moving.

NATIONAL TRANSPORTATION POLICY

If promotion of interstate commerce is still a basic premise of our federal transportation policy, then continuing support for intercity rail passenger service, and for that matter, all modes of transportation, should remain an important priority of the Federal Government. The federal investment made in Amtrak thus far has been well managed. The amount of transportation that we now generate for each dollar of federal operating support has more than doubled over the last five years. I am committed to running as efficient a railroad as any in the country, and will continue to pursue a course designed to improve our financial performance and reduce our requirement for public funds. In order to accomplish this, I need your continued support.

Congress has already contributed to this effort through the enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985, which provides authorizations of $606.1 million in FY87 and $630.3 million for FY88. In addition, the act contains certain legislative changes that will enable Amtrak to increase revenues by approximately $30 million per year, an amount which has already been assumed in the Corporation's FY87 funding request. The majority of these revenues will result from increased payments to Amtrak by freight railroads for use of our Northeast Corridor, so that we will recover a greater percentage of the costs incurred in operating and maintaining this rail line.

Amtrak is requesting an appropriation of the authorized funding level for fiscal year 1987 of $606 million. With some frequency modifications, particularly in those seasons when traffic is traditionally light, this should enable us to operate basically the same nationwide system that we are operating today, and fund a very modest capital program. We would also expect to resume certain scheduled track and equipment maintenance programs which had to be deferred or slowed in FY86, but which have turned out to be costly and could not be continued without serious detriment to the quality of our service.

As you know, the final FY86 continuing resolution passed by Congress, Public Law 99-190, contained $616 million for Amtrak, a 10 percent reduction from the FY85 level of $684 million. Funding for Amtrak this fiscal year was further reduced under the Gramm-Rudman Balanced Budget Act by 4.3 percent, which translated into a $25.3 million reduction down to $591 million. Amtrak was able to minimize the impact of these funding reductions by taking actions early in the year, long before the continuing resolution was finally passed into law. One-third of the $93 million funding reduction was achieved through the implementation of internal operating efficiencies, and another one-third by eliminating our publicly funded capital budget for FY86. Only after all other possible steps were taken, did we reduce service on January 12 of this year. The service changes consisted of frequency reductions on 10 routes across the country where we discontinued or restructured those trains with higher costs per passenger mile.

Last year I indicated that Amtrak could, with considerable difficulty, survive a 10 percent funding cut from the 1985 appropriation of $684 million, without major disruption to service. Amtrak is much more vulnerable this year because the cut made is significantly more than this, and we cannot, in good conscience, defer some important maintenance functions for another year. Furthermore, an approximately $600 million appropriation in 1987 dollars would represent a further reduction below the FY86 level of some $20-25 million as a result of inflation (which we assume for this purpose would be applied to both revenue and expenses). Any further reductions in FY87 appropriations would almost inevitably result in more drastic service reductions, which in turn would adversely affect both our short and long-term volume of business and revenues.

In addition to providing the requested funding in FY87, there are a number of proposals that Congress should consider to help Amtrak in the long-term. One of our most serious concerns has been the scarcity of funding for capital projects. It's the life blood of the rail industry and has been one of the biggest contributors in our efforts to reduce costs and become more efficient. The capital investment made in past years to modernize facilities and to refurbish and replace our aging fleet of rolling stock has played a large role in the improvement that has taken place to make Amtrak more reliable and cost effective. For FY86, we will have no capital appropriations and have requested only $29 million for FY87. This, of course, does not include the FY86 NECIP appropriation of $12 million which will be used for continuation of multi-year capital work in the corridor. We certainly hope this Committee will not allow those funds to be rescinded. The FY87 NECIP request for those same NEC-planned but uncompleted projects is $24 million.

Fortunately, Amtrak over the last five years has been able through its corporate development activities to generate some modest funds that can be made available for capital; in fiscal year 1986, we anticipate capital funding from these sources of $25 million, and hope to be able to achieve $35 million in fiscal year 1987 from these services, plus increased revenues from provisions of the Reconciliation Act, if passed. This, however, is totally insufficient over the long pull for a company as capital-intensive as ours is, and with an annual operating budget of approximately $1.5 billion per year.

In the future, as a self-help approach to finance an even greater portion of our capital budget internally, Amtrak is pursuing legislation that would give the corporation authority to sell tax-exempt bonds to finance capital improvement projects. The sale of tax-exempt bonds is routinely used by state and local authorities to finance the construction of roadways, bridges, airports, seaports, and local transit facilities. The sale of tax-exempt obligations has enabled public authorities to reduce finance charges for construction of important transportation projects and has provided them access to private capital markets, with substantial benefits to the users of those facilities, including air and highway carriers.

Repayment of such bonds issued by Amtrak would be secured by proceeds from the particular project being financed or by long-term, dedicated revenue sources generated through Amtrak's corporate development efforts, and would not be guaranteed by the federal government. Any obligation sold by Amtrak would be subject to the same market constraints and safeguards that investors impose on other tax-exempt revenue bonds to ensure that the principal and interest is repaid. This funding mechanism is often used in lieu of direct capital grants by states and local communities, and I believe that within about a decade Amtrak should be able to finance on a revolving basis the entire amount of a realistic capital budget if we receive similar authority from the Congress.

Amtrak has come a long way in the last 15 years and as a result of policies formulated by management and adopted by our Board of Directors, we have had to decline numerous requests to add new services to the basic route system, and limit future growth to those routes that could be expected to decrease our need for federal funding. Along these lines, Amtrak has encouraged states and cities to participate to a greater degree in financing the operation of our national system. These efforts have resulted in decisions by states and communities served by Amtrak to build and operate new stations at no or little expense to Amtrak and to add service on heavily travelled routes by fully participating in the state-supported 403(b) program. This subcommittee and others in Congress have also encouraged joint efforts with states to broaden and improve rail passenger service. Two of the best examples are the West Side Connection and Atlantic City-Philadelphia projects, which when completed, will enable Amtrak to further lower its federal funding needs. Both projects demonstrate how limited federal resources can be used to leverage state, local and private funding for large scale rail projects.

Last year Congress did not approve the proposed budget cuts that would have threatened Amtrak's existence. In FY86, Amtrak will have less to work with in the way of material resources, but the one thing we will not lack is the dedication of our employees. There is much work ahead. I hope we can parlay this dedication and the experience we have gained over the years to continue to improve and expand rail service in this country. I look for your continued support in this endeavor.

AMTRAK RIDERSHIP

Senator ANDREWS. In North Dakota, largely due to the depressed farm economy, our ridership was down in 1985 relative to 1984. How did the rest of the system do?

Mr. CLAYTOR. Generally better. Actually in 1985, I think we had one of the best years we've had since the gasoline crisis which reached a peak a few years ago.

In 1986 so far, we are doing considerably better than we did in 1985 on both revenue and revenue passenger-miles which is the key.

Senator ANDREWS. In other words, the American people are voting by buying tickets. And they want to have Amtrak around, they want to use Amtrak.

Mr. CLAYTOR. That is right, sir. For example, to give some specific examples, our New York to Florida business is up in 1986 in the October-to-February period, 21.7 percent. Our Chicago-Seattle business is up 9.5 percent.

Senator ANDREWS. That Chicago-Seattle train is one that is close to my heart and we are glad they are using it.

Mr. CLAYTOR. Yes, sir; and generally speaking, this is true over the system. There are obviously from time to time ups and downs in different areas, but our long-haul business is good, our Northeast corridor business is good, and I am very hopeful that we are going to have the best year we have ever had.

Senator ANDREWS. The point we are making is that the trend lines of growth are clearly there.

Mr. CLAYTOR. That is right, sir.

Senator ANDREWS. And as you have been able to move this new equipment into place, as you begin to rehabilitate the stations and do the other things, the people are responding through increased ridership.

Mr. CLAYTOR. That is right, sir.

Now, may I make a suggestion? The key test in my opinion is revenue passenger-miles and revenue, rather than numbers of passengers.

For example, we are emphasizing in our long distance trips the long-haul passenger, because if a train runs 2,000 miles we need to carry people as far as possible. A commuter train that carries 300 people for 20 miles twice a day is going to have 600 new passengers that day and it will amount to very little from the standpoint of either passenger miles or revenue.

Therefore, when we look at numbers of passengers, it can be easily distorted by adding or subtracting a few short-haul trains. The key test is revenue-passenger miles.

Senator ANDREWS. It is the revenue passenger-miles that have increased 10 percent.

Mr. CLAYTOR. Increased significantly, and, of course, they are the things that control the revenue. And frankly, Mr. Chairman, I am looking hardest at revenue. I think how much money we get is the key thing in enabling us to reduce our dependence on Federal appropriations and I am after more revenue all the time and that is the key.

ELIMINATION OF AMTRAK

Senator ANDREWS. Now, it is the committee's understanding that the elimination of Amtrak as proposed by the administration would trigger over 2 billion dollars' worth of wage settlements, which is a difficult way of cutting back the spending of $600 million if you trigger a cost of $2 billion immediately. But in addition to that, it would cost users of the Northeast corridor an additional quarter of a billion dollars annually to continue to run passengers and freight services. Is that correct?

Mr. CLAYTOR. That is correct. The grand total that we figured is that it would actually cost $212 million over and above what it now costs the Northeast corridor commuter agencies and freight carriers to provide this service if Amtrak is not there, because they have got to use many of the tracks that we use and we pay the great bulk of the maintenance, the overhead, the signals, the electric traction, and that sort of thing.

If we are gone, they have got to pay it all, and it is going to be an enormous increase, and for the commuter agencies who are also having their transit money reduced, I think it would be an impossible burden.

In my opinion, what will happen—this is pure opinion because I have seen it happen over the years in Washington before—when there is a shortfall of an essential service that cannot be picked up quickly by the service itself, the provider of last resort is the Federal Government, and the Federal Government is going to have to come in and pick up this $212 million because nobody else is there to do it.

Senator ANDREWS. But the point is, you cannot put them on buses because there is not enough tunnel capacity to take them under the Hudson River. You cannot put them on airplanes because we do not have that many airports.

Mr. CLAYTOR. There are two areas that are badly affected in the Northeast corridor. One is the commuters who have to pay all this extra money and I do not think you can get commuters into the major cities without using rail.

The other is the passengers that we carry ourselves between Washington and New York and New York and Boston. And there their only real alternative is to go by air. The airports are already crowded. If you tried to put all the people, the 17,000 people a day that we carry to various cities between Washington and New York in the air, the airports could not handle them.

Senator ANDREWS. Some 17,000 passengers a day.

Mr. CLAYTOR. 17,000 a day ride Amtrak between Washington, New York, and intermediate cities.

Senator ANDREWS. The New York airports already are slot controlled. Where do we build a new airport if we shut down Amtrak?

Mr. CLAYTOR. Well, I do not know where we build it, but any place you do build it is going to cost $15 or $20 billion, particularly near New York City. There has been talk about building an airport over Sandy Hook Bay.

I cannot imagine that could be done for less than tens of billions of dollars, to say nothing of trying to get the people into town from there after you have done it, because it is not just an airport, you have to have transportation out of the city, too.

I think we would be heading into an enormous additional expense for a service that is not really susceptible to good service by air for the distances involved.

Senator ANDREWS. As you know, Mr. Claytor, these hearings are to get the facts on the record so we can defend actions that may have to be taken on the Senate floor later.

Mr. CLAYTOR. Yes, sir.

Senator ANDREWS. I put together an amendment in the Budget Committee that saved Amtrak in the budget resolution. We will probably have to protect it on the floor. We are used to that, but we want to have as many statistics as we can to show that what we are doing is not pink cloud stuff, but based on straight-out dollar figures.

Now, are there other commuter or freight operators that would have cost increases because of Amtrak shutting down?

Mr. CLAYTOR. The commuters that we have been talking about are basically all the commuters in the Northeast corridor. There would be some effect on Chicago commuters, because they have to use our Chicago Union Station.

Senator ANDREWS. What cost figures do you have if Amtrak shuts down in their case?

Mr. CLAYTOR. It would not be that great. It would probably be $5 or $6 million a year extra for the Chicago commuters, since they do not operate over our railroad. They merely operate into our station. And they would have to pick up all the other additional station costs.

The big costs, the costs that I do not think can be handled by the commuter agencies, are those that would have to be absorbed by New Jersey Transit into New York, Southeast Pennsylvania Transit into Philadelphia, the Maryland Department of Transportation into Washington from two directions, and the Massachusetts Bay Transit Authority in Boston.

JOINT LABOR MANAGEMENT PRODUCTIVITY COUNCIL

Senator ANDREWS. In your prepared statement, you cited the work of the Joint Labor Management Productivity Council and the number of dollars saved by the ideas and suggestions offered by employees.

Does Amtrak have any way of rewarding those employees who make suggestions that result in Amtrak saving money?

Mr. CLAYTOR. We are looking into that, Mr. Chairman. I have had experience with these incentive programs before. They can be very helpful, but they are also extremely difficult to administer fairly. And we are probably going to put an incentive program in, in one or two places as an experiment and see how it will work.

It is an excellent idea in theory. In practice, you frequently have more disgruntled people who feel that the man who got the award did not contribute as much as they did, and they did not get one.

However, I think we can cope with it and I am going to put it into effect in one or two places as an experiment and get some experience with it.

ON-TIME PERFORMANCE

Senator ANDREWS. On-time performance systemwide is 81 percent. However, long-distance trains are at 78 percent according to your annual report.

Mr. CLAYTOR. Yes, sir.

Senator ANDREWS. What are the major impediments to raising the on-time performance figures overall and particularly for the long-distance trains?

Mr. CLAYTOR. The greatest problem is weather. Let me explain. In the winter when weather in North Dakota is below 10 below zero—and it occasionally I understand is——

Senator ANDREWS. Only very rarely. But we use that 40 below zero temperature to eliminate the riffraff. [Laughter.]

Mr. CLAYTOR. Well, the problem is that the railroad must then reduce its speeds for safety reasons because of track problems. If the speed is cut from 79 miles an hour to 50 or even 40 miles an hour, the train is going to be 4, 5, 6, 7 hours late getting to its destination.

Senator ANDREWS. You know, Mr. Claytor, a survey was recently made of all the cities in the Nation which found that Fargo, ND, was the least stressful city and Miami, FL, was the most stressful city. Now you are telling us that the absence of stress for the populace does not extend to the railroad trains that you run through there.

Senator CHILES. Why are the people from Fargo still moving to Miami? [Laughter.]

Senator ANDREWS. They are just coming down to see how good they have it back in Fargo. As a matter of fact, we had some couples from Miami who were sponsored by a television station, who came up to North Dakota last January or February. They had a wonderful time, Lawton.

Senator CHILES. If the people of Fargo would "fargo" going to Miami, we would not have as much stress down there. [Laughter.]

Senator ANDREWS. You would not have as much revenue either, I might point out to the Senator from Florida.

Mr. CLAYTOR. Mr. Chairman, my point is that extremes of weather at any point in the country cause delays in the through trains. Then when they get to Chicago, we have so many people transferring to the eastern trains, we have to hold the train for that, and that affects the on-time performance throughout the rest of the country.

So that the greatest problem in maintaining overall on-time schedules basically is weather, which we really cannot control.

Now, we have brought our overall on-time system up from a low a few years ago of in the 50-percent or 57-percent category. Today it is consistently running between 80 and 82 percent. And the ups and down from month to month are generally related to weather problems, flood problems, blizzard problems, or the like.

Now, I think we can hold our on-time performance at about this level. We have an objective to increase it each year and I would like to get it to 85 percent, but weather is the principal problem.

Now, when we look at the Northeast corridor, for instance, our Metroliners are running at 85 percent on time; our Northeast corridor overall is a little better than the system average of about 84 percent in 1985. And as work is completed on that, that will improve.

Our greatest problem in the Northeast corridor is the area between New York and New Haven which is owned and operated and maintained by Metro North, not by Amtrak.

Senator ANDREWS. And that is a maintenance problem.

Mr. CLAYTOR. They are in the process of rebuilding bridges and track in that line. That results in delay, and of course that delays us at both ends.

Senator ANDREWS. But the passenger exchange in Chicago, you are addressing that issue? That is the one that is critical for our Chicago-Seattle route.

Mr. CLAYTOR. What we are trying to do in Chicago is to adjust the schedules so that we have a little more time between the arrival of the connecting trains and the departure of the train with which they are supposed to connect, giving us a little more leeway. We are making some of those changes in the timetable that will take place in April.

TAX-EXEMPT BONDS

Senator ANDREWS. Mr. Claytor, what is the status of Amtrak's efforts to sell tax-exempt bonds?

Mr. CLAYTOR. Well, what we would like to do—we are requesting that we be given the authority to issue tax-free revenue bonds. Now, let me explain why.

Senator ANDREWS. Yes; for what activities?

Mr. CLAYTOR. For capital expenditures. I believe that in 5 to 10 years if we have this authority, perhaps in less time than that, Amtrak will be able to generate internally all the capital it needs and not have to ask for any appropriation for capital. The reason for this is that we are developing significant nontransportation revenue from the lease of fiber-optic cables along our right-of-way, from real estate developments and other things; so that if we could issue bonds, revenue bonds, secured solely by the revenues from these long-term contracts with outside, solvent private enterprise people, we would be able to raise the money that we need for our capital improvements.

Practically all the capital improvements that we now have on the books will produce a return of 15 to 30 percent. And if we can make the expenditure, we will get that return, and that will be reflected in cheaper operations and less public funding needed for our operations.

So what we are asking for is the authority to issue tax-free revenue bonds to be secured solely by this stream of revenues, not guaranteed by the Government in any way. Now, our airports have had billions of dollars raised by tax-free revenue bonds. Practically all the airports in the country have been built like that.

The savings from the tax-free bonds are now reflected in the operating costs of the airlines. We feel it is only fair that we should have the right to do that, too, and that is what we are asking for. And I think it will be reflected in savings to the Government through no appropriations for capital expenditures and reduced appropriations for operations over the years.

DEVILS LAKE, ND, DEPOT

Senator ANDREWS. Finally, Mr. Chairman, the Burlington Northern Railroad in early February announced that it was reducing its signal operators at the Devils Lake Depot. These signal operators, the committee understands, provided contract services for Amtrak.

Are you aware of that decision by the Burlington Northern?

Mr. Claytor. I did not know that they had made a firm decision. We had heard that they were considering doing it. When we look into it, get closer to the time, we will have to decide what we do about that. The alternatives, of course, are to hire an Amtrak agent to handle the station, or certainly at a minimum, to hire a caretaker to take care of the station.

This has happened in other places before and what we will have to do is to look at it very carefully and see how to handle it. But we will handle it.

Senator Andrews. And you will negotiate with the railroad to find out if there are some employees that they may still have there that could be shared to get the costs down?

Mr. Claytor. Oh, that is right. We always do that. What has happened in other cases usually has been that they remove all their employees. We do not know whether they are planning to do that or not, but we are prepared to cope with it in either way. We will certainly try to negotiate.

Senator Andrews. But you will maintain someone in Devils Lake to take care of ticketing and checking luggage and parcel receipts and the rest? This does not mean that you are going to shut down that depot?

Mr. Claytor. It does not mean we are going to do that, but it means we will have to look at how much of that we can do if we have to do it all with our own people. And we will have to compare that with the revenues generated there, the number of people on and off the train compared with all the other stations

Senator Andrews. But there is no way you are going to eliminate that stop in Devils Lake?

Mr. Claytor. No, sir; no way we will eliminate that stop.

Senator Andrews. I just wanted to make that crystal clear, Mr. President.

Mr. Claytor. No way we are going to eliminate the stop and no way we are going to eliminate the station.

Senator Andrews. That is good. Or no way you are going to eliminate the Empire Builder either.

Mr. Claytor. Oh, no sir; the Empire Builder is one of our——

Senator Andrews. That is the kind of question Bob Byrd usually asks about the Cardinal, and I just wanted to make sure you understood I was interested in it.

Mr. Claytor. No, no; the Empire Builder is one of our key long-distance trains.

Senator Andrews. One of your favorite trains, too, isn't it, Mr. Claytor?

Mr. Claytor. Yes, sir; it is indeed. [Laughter.]

Senator Andrews. We want to keep it that way and we appreciate the speed at which you moved to rehabilitate the station facilities in Fargo. I was at the dedication last Saturday and it was a good show, and I think from the number of people who showed up on a rainy day it indicates the interest that the people in that area have in Amtrak moving ahead.

Mr. CLAYTOR. I got a fine report on that myself, and I was particularly pleased to find that we brought that new station in $10,000 under the estimate.

Senator ANDREWS. Well, I just also want you to know that on Saturday morning, I got the Golden Spike Award and the first person to get that was Debbie Reynolds. I do not know what that means, but it ain't a bad connection. [Laughter.]

FISCAL YEAR 1987 SENATE BUDGET RESOLUTION

Senator CHILES. I am not going to touch that one.

Mr. Claytor, as you know, the Senate Budget Committee recently voted an overall budget plan for fiscal year 1987 which would include a freeze on Amtrak at the 1986 level, some $591 million.

That compares to your adjusted request of $606 million and the 1985 level of $684 million. I know you have implemented a long list of economy measures since our last meeting, including totally revising the work rules to pay engineers, conductors, and their assistants based on an 8-hour day instead of miles traveled; achieved agreements for freight and commuter railroads, to pay their fair share of fully allocated costs on the Northwest corridor; and frequency reductions for 12 of your trains.

What impact will the $591 million funding level have on Amtrak?

Mr. CLAYTOR. It will be a very tight squeeze, because some of the maintenance changes we have made we are going to have to put back. We made them. You can increase the maintenance cycle, make the maintenance cycle for locomotives and cars longer for a short period, which we could do in an emergency, but if we keep it that way, it will cost you more in the long run and the service will deteriorate.

So we are going to have to put some of those savings back in. The off-corridor takeover should save us $20 to $30 million when fully implemented, but that is a couple of years away. We are starting it next week, but it will take 2 years or so, 18 months to 2 years to implement, so that will be down the road a piece.

The frequency changes we made have been experimental and we are not sure how much money that is going to save. The data on that will be available soon since the changes were made mostly between January and March. We have got to check cost savings and loss of revenue and see how it has worked out.

We will repeat frequency changes this next year to the extent that it turns out to be really effective. But frankly, I think anything below $606 million is going to make it very difficult for us to retain our present level of service and our present quality of service, and when the quality goes down, the revenues start to go down, and you generally lose more money than you save.

Senator CHILES. Compared to the President's number, our number looks pretty good?

Mr. CLAYTOR. Sir? Compared to the President's—yes, sir.

Senator ANDREWS. Does the sun come up in the East in the morning?

FUEL COST REDUCTIONS

Senator CHILES. Well, I understand that you might look to have savings of $4 to $5 million in your budget because of fuel reductions.

Mr. CLAYTOR. Well, the fuel question is——

Senator CHILES. I know it cuts two ways, and what I wanted to ask you is, are you going to be able to get your increase in ridership up to 2 million, given the fact that with lower fuel costs it is going to be cheaper for people to drive?

Mr. CLAYTOR. I cannot answer that. We hope we are going to be able, nevertheless, in spite of that, to be get our ridership up. But let me go into the fuel issue a little bit more.

Our budget that we submitted for 1987 assumed a 76-cents-a-gallon fuel cost. That was below the actual cost of fuel at the time we made the budget when we knew the prices were going down, so we figured into the budget that you have 76 cents a gallon.

The most recent figure is 59 cents a gallon, so that is 17 cents a gallon below that. Even if we hold—well, let me say the best information we have is that it is not likely to go much below that. I think we may be getting close to the bottom. It may go up.

But if we assume we continue at 59 cents a gallon, that is a 17-cent saving per gallon. We use 60 million gallons a year, and that adds up to about $10 million in savings on a full year's basis.

Now, that $10 million, I am very much afraid, is likely to be more than eaten up in loss of revenue since fuel is a much more critical item for both the air transportation industry and for the private automobile, and they are the alternatives that people have to train travel.

As a result, in the past when gasoline prices were very high, our ridership was very high. When gasoline prices were very low, the tendency is to drive your car the long distance instead of using our trains. We do not know what the effect will be, but I doubt if the reduction in fuel price, net, will save us any money when you look at revenue as well as expense.

RESERVATION SALES OFFICE NEGOTIATIONS

Senator CHILES. Mr. Claytor, I understand you are conducting negotiations with the reservation office employees in Jacksonville. As I understand your offer to these employees, it would apply only to future employees, and it does not impact any of the current workers.

Essentially as I understand it, you are proposing that any new employee hired to fill a vacancy of normal attrition would begin at $6.92 per hour as opposed to the starting wage of $8.92, and also any new employees would have to agree to work on a part-time basis.

The new agreement would go into effect next September in Jacksonville and I understand you would give the current workers a 5-year guarantee to keep the Jacksonville office open if they agree to your conditions.

Is this essentially correct?

Mr. CLAYTOR. Yes, sir; that is essentially correct.

No existing employee would have to have a reduction in pay or go on a part-time basis unless he or she chose to.

Senator CHILES. I further understand, Mr. Claytor, there has been some concern over the manner in which Amtrak negotiated. We have been told that this proposal was sort of put to the Amtrak people as basically an ultimatum that if they did not agree to these conditions, the office and the 143 positions would be moved either to Chicago or Philadelphia.

Is that correct?

Mr. CLAYTOR. Let me give you the background. I think that is not correct, Senator.

Over 2 years ago, we began looking at the costs of our reservation sales office very hard. Let me explain that the entry rate for Amtrak, as you mentioned, is about $8.90 an hour for those employees. The comparable employee at the airlines is paid $5.45 an hour.

The cost of these very large reservation sales offices which we have to have, which are very critical to our operation, is just too great. As you know, we have got to cut our costs in every way we can and this is an important one.

So over 2 years ago, we looked into and did a study on how much we could save if we consolidated our five offices into three by eliminating the least efficient from the standpoint of the size of the offices, which were the Jacksonville office which is relatively small and the Long Island office which is relatively small, and put them into the larger offices.

If we made that change today, it would save us about $3,800,000 a year. Excuse me; it would save us $4 million a year. If we made the changes that we—well, let me back up.

We looked at this very carefully and there was some talk that we might have to close the Jacksonville office at that time. We did not want to close the Jacksonville and Long Island offices because the people there are doing a good job. The Jacksonville office particularly has got some of the finest employees we have. They do, within the limits in which they are required to work, which is the full 8-hour day, no part-time work, they do a fine job.

The same is true of our Long Island office. However, we would save $4 million by making the consolidation. What could we do? We have studied for several years what we could do, and we think that if we could obtain the agreement which you have outlined, it would save us $3,800,000 a year. That is almost as much as we would save by the consolidation, and that is good enough for us. We will take it.

So we put it to the employees, we put it to the union. We have been negotiating for a considerable length of time, but we have had to say that the union so far has turned it down cold. And we have had to say, look, we have got to make these savings. As you say, we have got an appropriation figure that is squeezing us right to the wall. We have got to make the savings. We have either got to get our agreement here that will save us this money, or we have got to save it the other way.

It is not a matter of threat. It is not a matter of putting the threat up as a means of getting this. It is a matter of alternatives. We are faced with the alternative of doing one or the other, and I do not see that we have any other choice, and we have tried to tailor this so that no employee in either the Long Island office or the Jacksonville office would be hurt.

All of his rights would be preserved, and only the new hires which we would then be able to hire as part-time people, which we desperately need because of the way the reservation office has heavy loads at certain times of the day and at other times it is very light. If you have to work all 8 hours, half the people sit there doing nothing for half the time.

I might add also that we know from discussing this with our own employees that quite a significant number of existing employees would elect part-time work because many of them are women, many of them are married and they have homes and children, and they would like to work less time, but no one will be required to do so.

That saves us a big pot of money.

IMPACT ON CURRENT WORK FORCE

Senator CHILES. I understand the dilemma you are in, being constantly squeezed by us and by the administration in an effort to keep Amtrak going, being forced to make savings, and on the other hand trying to honor a lot of these agreements and provisions we have had.

I have been told by the Brotherhood of Railroad and Airline Clerks' executives in Jacksonville that the major sticking point is the impact of this agreement on the current work force. Most of the current Amtrak employees would agree to these changes. Their concern about the current 143 positions and whether or not over time these also would be eroded in terms of salary level and whether or not they would also become part-time as vacant positions were filled.

Mr. CLAYTOR. Well, Senator, none of those things could happen without further agreement. The union has asked us to do two things that I will never agree to in any context. One is to say you will never consolidate any reservation sales offices. We have said, in order to take care of this problem, that we will agree, under any circumstances, not to do that for 5 years.

That is about as far as I think I ought to make an agreement to bind the future. I do not know what is going to happen after 1991, so I think that is a fair arrangement.

Now, so far as erosion of either the pay or the working hours of existing people, it cannot be done without a further agreement. I guess the union wants to say, you promise never to change it in the future. I cannot do that.

Senator CHILES. I think that is part of their concern. I think the other part of their concern is that your offer is that no more than 30 percent of the work force would be part-time.

Mr. CLAYTOR. That is right.

Senator CHILES. I think they are concerned that this is an unreasonably high percentage of part-time workers, even if it occurs through attrition.

Mr. CLAYTOR. Well, I think it is going to depend on the need, Senator. You see, as I mentioned, these reservation sales offices are unlike an ordinary clerical office in which you go to work at 9 o'clock in the morning and you get off at 5:30 or 6 o'clock in the evening and you work all day at a steady operation.

We have big peaks. We have to get people in to take care of the periods each day when the calls come in. We know when that is. Now, if we get someone in to take care of the peak periods so that customers do not have to get on the phone and wait 10 minutes, that person now has to work all day. We have to pay them for 8 hours.

And if people are willing to work less than that, on a part-time basis, it makes sense from the standpoint of efficiency, it even makes sense from the standpoint of the people involved to do it.

Now, I think 30 percent is reasonable on the basis of our experience as to what is needed, and since no one who has got a full-time job can be required to work less than full-time if they do not want to, ever, I think we are in good shape.

Senator CHILES. What can you tell us about the remaining issues and when do you expect to reach a resolution on these issues with the Brotherhood of Railroad and Airline Clerks?

Mr. CLAYTOR. The only real remaining issue that we have proposed is the entry rate and the two-tier system to try to bring, in the future, our wages a little bit closer to the wages paid by our competitors, the airlines. The $5.45 rate for the airlines and $8.90 for Amtrak is just an impossible spread. And this again will not affect existing employees in any way. It is only new hires.

If new people are willing to come and work for that, as they clearly are, the figure we have got is still above the airline price. I think it is reasonable.

Senator CHILES. Mr. Claytor, I would hope you would proceed with your negotiations with good faith, and I would hope we could have good faith on the other side as well and we could have a minimum of threats and scare tactics that only disrupt the work force and create a lot of turmoil and anxiety.

Mr. CLAYTOR. Well, I certainly agree with that, too. This is no threat. This is an alternative that we are faced with and in view of the fact that the money is already being cut, I cannot decide to put this off for 2 years or something like that. We are either going to have to consolidate offices and make the savings there, or do what we much prefer to do: Keep the offices exactly where they are under these arrangements that will save not quite as much, but essentially the same amount of money.

We will continue to try our best to reach an agreement with the union. And as a matter of fact, we have said that if Jacksonville, for example, accepts our new proposal, even if it is not accepted elsewhere, we will keep Jacksonville just as it is.

LONG ISLAND RESERVATION SALES OFFICE

Senator D'AMATO. How about Long Island?

Mr. CLAYTOR. If Long Island accepts it, we will keep Long Island just as it is. But if the only alternative to making the saving is consolidation, we are going to have to consolidate.

Senator CHILES. Well, we certainly hope that you will keep the office in Jacksonville.

I will probably have a few more questions on this, Mr. Chairman, that I will submit for the record.

Senator D'AMATO [presiding]. I do not mean to rehash this entire issue, but obviously I have similar concerns regarding the closing of Amtrak reservation offices as it relates to the office in my home community of Long Island. I am not going to ask you to explain once again that which I think you have amply explained for the record, but I would like to get a clarification.

Are you saying that you think you can get to this, or it is your idea to get to this situation by way of attrition?

Mr. CLAYTOR. Yes.

Actually what we are saying is that the part-time employment, up to 30 percent, will be done only by voluntary acceptance by existing employees, many of whom we know would like to work part time, and by new hires.

So, yes, it is by attrition.

Senator D'AMATO. Are you saying that anyone who is a full-time employee who does not voluntarily wish to take the part-time hours will not be compelled to do so?

So you are really giving a job guarantee for all who are there, guaranteeing them full-time employment. Is that correct?

Mr. CLAYTOR. Well, if we have to lay people off, if business goes to pot——

Senator D'AMATO. Well, all right.

Mr. CLAYTOR. You understand that. We are not willing to give—one of the things the union has asked for is a minimum force guarantee, a wage stabilization.

I will never agree to that voluntarily in any context. I consider that that is the kind of thing that actually is most likely to drive you into bankruptcy if you are a private company and it is not fair to a company that is supported by the Government to do that. I will never do that.

But these people, so long as the job is available, these people will have it.

Senator D'AMATO. All right.

Do you intend to reach that 30 percent part time by way of attrition?

Mr. CLAYTOR. By voluntary acceptance or by new hires, that is right. Only new hires.

Senator D'AMATO. Do you have a sense of what will be taking place? Are you still meeting with the union? Are the negotiations still continuing?

Mr. CLAYTOR. We are still having discussions with the union and we are prepared to sit down and discuss as long and as thoroughly as we possibly can. We have been steadily and are now.

AMTRAK SERVICE IN NEW YORK

Senator D'AMATO. Graham, let me ask you, what plans does Amtrak have with respect to restoring past levels of service to western New York?

Mr. CLAYTOR. There is only one train that was discontinued between Albany and Buffalo/Niagara Falls. We have no plans to put that train back now in view of our budget problem. The train was doing very poorly. It is one of the poorest revenue-producing trains we had, and so we had to do this all around the country. We did not select New York. We took a much bigger cut, for instance, between Philadelphia and Harrisburg where the trains were also doing very badly. We took another one off on the west coast. And I do not anticipate, unless we get a bigger restoration of our appropriation than I expect to have, that we will be able to do anything there.

I am sorry. We would like to. I hate to cut service anywhere, but I am prepared to cut service when I have to, and that is one of them.

Senator D'AMATO. Look, you cannot run the train without the necessary dollars. We understand that and I do not think that people are going to accuse you of senselessly eliminating service because that has not been your record.

Let me ask you one other thing. How are your negotiations proceeding with the MTA in New York with respect to the Pennsylvania Station improvement project?

Mr. CLAYTOR. It could not be better.

Senator D'AMATO. Really?

Mr. CLAYTOR. Yes, sir.

Senator D'AMATO. Make my day, as Mayor Eastwood would say.

Mr. CLAYTOR. It has been a very, very long time, much too long, but I believe we have in effect reached agreement and I am hopeful that we will be able to take those agreements to our respective two boards at the next meeting.

Senator D'AMATO. That is fine. So you mean we will have something going before November 1986?

Mr. CLAYTOR. Yes; we can sign the agreement subject to regulatory approval, but before they can be implemented two regulatory approvals have to be obtained.

Senator D'AMATO. Oh, dear God. That could be in the next decade.

Mr. CLAYTOR. No; I think not. I think we can do it. The FRA has to give approval for release of some liens on properties to be transferred to the Long Island.

Senator D'AMATO. You mean John Riley?

Mr. CLAYTOR. Sir?

Senator D'AMATO. John Riley and company?

Mr. CLAYTOR. That is right.

Senator D'AMATO. John, where are you?

Mr. RILEY. I am up next, Senator.

Mr. CLAYTOR. Then the whole thing has to be approved by the Interstate Commerce Commission and I do not foresee any problem there. But I think we are in good shape.

Senator D'AMATO. That is wonderful news because that facility certainly could use the kind of upgrading that is planned and I am deeply appreciative of your perspicacity in this matter.

Mr. CLAYTOR. Well, your office, you yourself, Senator, and your office have been most helpful in this. Anne Miano was particularly helpful in helping us get this agreement through and I am hopeful that we are now over the hump and I think we are going to make it.

Senator D'AMATO. Great.

Thank you very much. We are appreciative and mindful of the difficult task you have. The administration has put forth some budget requests that would make it impossible to operate a Lionel train much less a real train that carries passengers—I do not know if they still make Lionel trains. I guess you would know the fate of the old Lionel. Do they still make those Lionel trains, or have the Japanese replaced them?

Mr. CLAYTOR. Oh, no, no. They are still being made in this country. I had a Lionel train when I was 12 years old and I am a toy train collector now and still have a lot of Lionel trains that I still run, and not just for my grandchildren, but for myself. Thank you. [Laughter.]

Senator D'AMATO. Your hobbies certainly reflect your railroad expertise. I am certain that Congress is going to be providing both in the budget and the appropriation process, considerably more than OMB would authorize for Amtrak.

Mr. CLAYTOR. Thank you, Senator. I sure hope so.

SUBMITTED QUESTIONS

Senator D'AMATO. Thank you very much. We have more questions from Senator Andrews and other members of the subcommittee that will be submitted for the record.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR ANDREWS

GENERAL OVERVIEW

SENATOR ANDREWS: What percent of Amtrak ticket sales are made through travel agents now and estimated in 1987? Is this travel agent service available in North Dakota?

ANSWER: In FY 1986, Amtrak estimates that travel agents will account for 36 percent of all Amtrak passenger related revenues. While our estimates for FY 1987 are not complete, it is expected that this proportion will exceed 38 percent in that year.

Any travel agent accredited by the Airlines Reporting Corporation, which is the major travel agency sanctioning body in the United States, may request authority from Amtrak to issue tickets. Thus far, Amtrak has granted this authority to over 21,000 agents. There are 39 agents in North Dakota.

SENATOR ANDREWS: Has the existing reward system been enough of an incentive for employee participation?

ANSWER: Amtrak has not had this kind of a financial incentive reward system before. Amtrak does, however, have a number of other awards like the president's Achievement Awards, plus local employee of the month recognition. Since Amtrak makes a substantial number of these other awards every year, it is obvious that employees do participate in a variety of ways that improve Amtrak. Amtrak would like to motivate more of them to become involved, however, if possible.

SENATOR ANDREWS: Are you aware that the Department, in an effort to keep its fiscal year 1986 supplemental deficit neutral, has proposed the use of $8.725 million of Amtrak's operating assistance to funds its supplemental request? Was Amtrak consulted on the transfer by the Department and/or Office of Management and Budget (OMB)?

ANSWER: Amtrak was not consulted by the Administration prior to submission of the FY 1986 supplemental budget request on the impact or advisability of transferring $8.725 million from Amtrak to other accounts in the Department of Transportation budget.

SENATOR ANDREWS: What would the system impact be if Amtrak lost that amount of funds?

ANSWER: The impact of such a further cut that would have to be absorbed in the relatively short time remaining in the fiscal year would be severe.

Experience has shown that last minute service or frequency adjustments would in all probability lose more in revenue than they would generate in cost savings, especially, during the Corporation's peak summer season when these service adjustments would have to be implemented. Therefore, the $8.7 million reduction would have to come from other areas of the company.

SENATOR ANDREWS: OMB suggested that you impose a surcharge on sleeping car usage during peak periods. Is that feasible? If not, why not?

ANSWER: The Administration's proposal to reduce Amtrak funding by $8.7 million and the suggestion that the impact of this cut would be minimal if Amtrak imposed a surcharge on sleeping cars during peak periods is clearly unreasonable. First, a surcharge could not be applied to a significant amount of sleeping car space that has already been booked in advance this summer. In addition, the surcharge would have to be applied during a very short duration. Given both these facts, Amtrak estimates that a 40 to 45 percent surcharge would be required during the summer months, and even this assumes there would be no loss in ridership. Previous experience indicates that Amtrak actually loses revenue and ridership when surcharges of this type are imposed.

SENATOR ANDREWS: A transfer of $8.725 million this late in the fiscal year roughly translates into an annualized level of over $20 million. Can this level of cuts be absorbed at this time? If so, please explain how? If not, why not?

ANSWER: The March 1st Gramm-Rudman reduction eliminated Amtrak's Fiscal Year 1986 capital grant funding. Frequency reductions during the peak summer months would lose more in revenue than they would save in operating costs, therefore, the only possible source for such reductions would be to severely curtail and defer programmed maintenance of equipment and right-of-way improvements. This option is not one Amtrak would wish to implement. Equipment maintenance and right-of-way maintenance are both already at depressed levels due to the Gramm-Rudman March 1st reduction. Experience indicates that any effort to make up the additional cut through surcharges or other fare increases above those already contemplated would be counterproductive in that this would, in all likelihood, reduce rather than increase revenues because of reduced volume.

SENATOR ANDREWS: Amtrak owns automated track laying equipment and an advanced track geometry car. Does Amtrak use this equipment exclusively or does it loan or lease it to freight operators?

The automated track laying equipment and the track geometry car are not loaned or leased to freight operators. However, Amtrak actively markets this equipment for contracting (equipment and personnel) to other railroads and commuter agencies subject to Amtrak's own work program. In FY84 and FY85 Amtrak, using the track laying equipment and its experienced work crews, renewed 20 miles of track for the Southeastern Pennsylvania Transportation Authority under a contract valued at over $8 million. Other track renewal services include the lease of less specialized equipment, undercutting and rail welding. Total revenues from track renewal services and leases in FY85 were $3.8 million.

SENATOR ANDREWS: Have other railroads or subway systems made use of Amtrak's wheel impact detector? Can this be leased out for revenue enhancement purposes?

ANSWER: The Florida East Coast Railroad has installed wheel impact detectors at several locations, and other railroads have shown an interest. However, Amtrak's wheel impact detectors cannot be leased out for revenue enhancement purposes because they are permanently installed along the right-of-way, and Amtrak does not own the patent on this apparatus.

SENATOR ANDREWS: Is Amtrak a paid consultant to commuter authorities converting to head-end electric power systems? How much income is realized?

ANSWER: Amtrak is performing on-going consulting work for Ontario Northland, a commuter agency in Ontario, Canada, related to the engineering and design of its equipment to head-end power. Amtrak has earned over $400,000 thus far for services provided in FY85 and FY86.

GRAMM-RUDMAN-HOLLINGS

SENATOR ANDREWS: What actions did Amtrak take to comply with the Gramm-Rudman-Hollings cut of 4.3 percent, which amounted to $25.3 million?

ANSWER: In order to comply with the Gramm-Rudmann-Hollings cut of $25.3 million, Amtrak eliminated the modest capital funding of $5 million approved under the FY86 Appropriation and reduced the Corporation's programmed equipment maintenance and right-of-way maintenance by $20 million.

SENATOR ANDREWS: The total resources available to Amtrak in Fiscal Year 1986 amount to $590.7 million ($562.2 million of new budget authority and $28.5 million of transferred budget authority) for its operations. This is a 15 percent cut from the Fiscal Year 1985 level. Last year there was some question about Amtrak's viability at more than a 10 percent cut. What have you done or what good fortune has occurred that allows you to continue with a 15 percent cut? Please elaborate.

ANSWER: Last year Amtrak committed that it could continue operation of a national system with a grant of $616 million which was a 10 percent reduction from its FY85 grant of $684 million.

To make this $68 million reduction Amtrak severely constrained year to year quality improvement in its operations, adjusted the frequency of certain trains, reduced its grant capital by $38 million and slightly reduced the estimate for wage price increases in FY86. When the Gramm-Rudman-Hollings legislation assessed a further 4 percent or $25 million reduction Amtrak was obliged to eliminate the final $5 million of the capital grant and defer $20 million of maintenance of equipment and right-of-way work. This deferred maintenance does not incur immediate risk to the safety of our passengers but it must be restored next year if Amtrak hopes to retain its customers and not loose revenue from inadequate and unreliable equipment.

SENATOR ANDREWS: Will Amtrak need any of the capital funds ($12 million post Gramm-Rudman-Hollings) provided for the Northeast Corridor for purposes other than capital work on the Corridor? If so, why and how much?

ANSWER: Amtrak has no plans to use any funds appropriated for the Northeast Corridor Improvement Project for purposes other than capital work in the corridor, since our needs there are critically important.

SENATOR ANDREWS: Will Amtrak be sending a reprogramming request to that effect? If so, when?

ANSWER: No, but Amtrak does plan to submit a reprogramming request that would redistribute the funds as follows:

	Millions of Dollars			
Item	FY 86 Appropriation	FY 86 Proposed	FY 86 Gramm-Rudman Adjustment	FY 86 Revised Proposal
Warren St. Bridge	2.3	-	-	-
New York Tunnels	2.5	0.9	-	0.9
Reverse Signalling	3.7	2.0	-	2.0
Concrete Ties, CWR, Undercutting	4.0	9.6	(.6)	9.0
TOTAL	$12.5	$12.5	$(.6)	$11.9

FREQUENCY SERVICE ADJUSTMENTS

SENATOR ANDREWS: In January of this year Amtrak made a number of frequency and service adjustments. What prompted these actions?

ANSWER: The service adjustments implemented in January of this year were prompted by the passage of the FY86 Appropriation at $68 million below the Fiscal Year 1986 funding request.

Amtrak also anticipated that it would be impacted further by the Gramm-Rudman legislation.

SENATOR ANDREWS: Were these in response to the mandated Gramm-Rudman-Hollings cuts?

ANSWER: Although they were prompted by the original $68 million funding reduction, the anticipated Gramm-Rudman-Hollings reductions were certainly a consideration.

SENATOR ANDREWS: What amount of savings will be realized by these changes?

ANSWER: Amtrak hopes to realize savings on the order of $10 million from these frequency and service adjustments.

SENATOR ANDREWS: Which of these changes (of January) were temporary and which of these changes does Amtrak consider permanent? Please list.

ANSWER: The following actions are considered permanent, although always subject to reconsideration and change:

Name/Route	Action
Mt. Rainier/(Portlant-Seattle)	Daily to four days per week.
Shawnee/(Chicago-Carbondale)	Combined with Chicago-Champaign Illini.

Wolverine-Twilight Limited/ (Chicago-Detroit)	Daily to Fri.-Sat.-Sun. only.
Indiana Connection/ (Chicago-Valparaiso)	Combined with Chicago-Valparaiso Calumet.
State House/Chicago-St. Louis)	Discontinued Sat. southbound; Sun. northbound.
Empire State Express/ (New York-Niagara Falls)	Discontinued between Albany and Niagara Falls.
Harrisburg-Philadelphia	Three weekday round trips discontinued, with a fourth planned for April 28.
Blue Ridge (Washington-Martinsburg)	Maryland DOT assumed responsibility for operation.

The following services were operated on a triweekly basis from January 12 to March 20 and have resumed daily service:

NAME/ROUTE	ACTION
Pioneer/(Chicago-Seattle)	Operated triweekly between Salt Lake City and Seattle.
Crescent/(New York-New Orleans)	Operated triweekly between Atlanta and New Orleans.
Palmetto/(New York-Savannah)	Operated triweekly between Washington and Savannah.

SENATOR ANDREWS: What other frequency and/or service adjustments is Amtrak considering for the rest of Fiscal Year 1986 and what are planned for Fiscal Year 1987? (If adjustments are planned, please list those changes being considered and the reasons for consideration.)

ANSWER: Amtrak does not expect to make any further reductions in service prior to September, 1986. The level of service that can be provided thereafter, will depend on the amount of funds appropriated for FY 1987, as well as Amtrak's analyses of effects on revenue and expenses of the frequency changes already made. While no specific adjustments are currently planned, an FY 1987 appropriation below $600 million would almost certainly require significant additional frequency reductions.

LABOR AGREEMENTS

SENATOR ANDREWS: In the budget request for Fiscal Year 1987, there is a line item to cover "inflation." How much of this "inflation" request is to cover salaries of Amtrak employees?

ANSWER: The inflation request for Fiscal Year 1987 includes approximately $26 million to cover salary and wage increases for Amtrak employees. This includes the wage increases for the train and engine crew takeovers planned for Fiscal Year 1987.

SENATOR ANDREWS: How much of this request is to cover the salaries of other railroad employees that operate Amtrak trains outside the Northeast Corridor?

ANSWER: The Fiscal Year 1987 request includes approximately $2 million for wage increase for the remaining railroad employees that operate and maintain Amtrak trains outside the Northeast Corridor.

SENATOR ANDREWS: What is the cost of living adjustment (percentage) for Amtrak employees and for other railroad employees?

ANSWER: The cost of living (wage) increase for Fiscal Year 1987 has been estimated at slightly over 4% for both Amtrak and other railroad employees and is consistent with the wage increases in the United Transportation Union agreement.

SENATOR ANDREWS: Amtrak wages have recently been 12 percent below the industry norm. With this cost of living adjustment will train and engine employees still be 12 percent below the industry average?

ANSWER: Yes, the wage portion of the train and engine crew contracts was based on NEC rates which include the 12 percent give up from 1981.

SENATOR ANDREWS: What would it cost in additional dollars if Amtrak crews were at industry's average?

ANSWER: Restoration of the 12 percent to all Amtrak employees would cost an additional $65 million.

SENATOR ANDREWS: Amtrak recently (February 6, 1986) announced it had reached agreement with the Brotherhood of Locomotive Engineers (BLE) and the United Transportation Union (UTU) to takeover direct employment of most engineers and conductors working in rail passenger service outside the Northeast Corridor. What is the status of that takeover agreement?

ANSWER: The first phase of the takeover which includes all of Conrail, Central of Vermont, Grand Trunk Western and part of the Chessie System and Seaboard System is scheduled for April 16, 1986 and is proceeding on schedule. Delaware & Hudson and Boston & Maine are also included in this first phase, but takeover will be delayed because our operations over those railroads have been suspended as a result of a strike against them by the Brotherhood of Maintenance-of-Way Employees (BMWE).

SENATOR ANDREWS: It is the Committee's understanding that these new Agreements were to be phased in over an 18 month period starting April 1st. Is that correct?

ANSWER: The Committee's understanding is correct, with the exception that the first phase has been delayed until April 16, 1986, and we have said that we hope to complete it in 18 months to two years.

SENATOR ANDREWS: Has Amtrak started to implement the takeover agreement? When? Where?

ANSWER: The first phase is scheduled to be implemented on April 16, 1986 on Central of Vermont, Grand Trunk Western, and parts of the Chessie and Seaboard Systems. We will proceed with Delaware & Hudson and Boston & Maine when the strike against those carriers is terminated.

SENATOR ANDREWS: How many non-Amtrak employees are affected by these new Train and Engine (T&E) Agreements?

ANSWER: The takeover will affect approximately 2100 railroad employees when completed.

SENATOR ANDREWS: Does Amtrak have an estimated schedule of train and engine crew takeovers with information by route, by railroad, number of employees and date of implementation? If so, please provide the committee that schedule of implementation.

ANSWER: The takeover will be implemented in phases with each phase involving parts of routes as well as entire routes and the same is true of railroads. The tentative phases are as follows and are subject to change:

Phase I April 1986	Boston & Maine Delaware & Hudson Central of Vermont Grand Trunk Western Chessie System (Chicago to Grand Rapids) Seaboard System (Chicago to Ind.)	502 employees
Phase II July 1986	Seaboard System RF&P B&O (Washington to Pittsburgh) Southern (Washington to Atlanta)	315 employees
Phase III October 1986	ATSF (Los Angeles to LaJunta) Union Pacific (Los Angeles to Las Vegas) Southern Pacific (except El Paso to New Orleans)	435 employees
Phase IV January 1987	Milwaukee ATSF (Chicago to LaJunta) ICG (except Memphis to New Orleans) BN (Minneapolis to Minot) BN (Chicago to Lincoln) Missouri Pacific (Kansas City to St. Louis)	389 employees
Phase V March 1987	ICG (Memphis to New Orleans) Southern (Atlanta to New Orleans) Southern Pacific (El Paso to New Orleans) New Orleans Yard	158 employees
Phase VI June 1987	BN (remaining service) UP (remaining service) DRGW (Denver to Salt Lake City) Portland terminal yard crews	318 employees

SENATOR ANDREWS: In announcing this agreement, Amtrak estimated that annual savings when the new agreement is fully implemented would amount to approximately $20 to $30 million annually. Is that still a good estimate?

ANSWER: Yes, the $20 and $30 million is still a good estimate, but will not be fully realized until after 18 months to two years.

SENATOR ANDREWS: By the end of this fiscal year (1986), six months under the new agreement will have been completed. What is the estimated savings for Fiscal Year 1986?

ANSWER: The T&E takeover will take approximately 18 months to two years to complete. Only the first phase is planned for April, 1986 and there will be one-time takeover expenses in connection with qualification of many, if not most, train crews for operations over routes that are new to them. We estimate minimal savings in Fiscal Year 1986 after start-up and crew qualifying costs have been covered.

SENATOR ANDREWS: What are the incremental or additional savings for Fiscal Year 1987?

ANSWER: The T&E takeover should result in additional savings of not more than $16-$20 million in Fiscal Year 1987, and until we have some actual experience with one-time takeover costs, we cannot be too confident about these figures.

SENATOR ANDREWS: Does the budget request for Fiscal Year 1987 reflect the savings associated with the new T&E agreement? If so, how much in total savings is estimated? If not, why not?

ANSWER: The Fiscal Year 1987 budget request reflects an estimated $16 million savings related to the takeover.

SENATOR ANDREWS: Amtrak took over train and engine crews on the Washington-to-Boston corridor on January 1, 1983. Are the T&E Agreements with labor outside the corridor similar to the ones in effect for inside the corridor? Please elaborate.

The Off-Corridor Agreement is similar to the NEC Agreement except that the Off-Corridor Agreement provides for layover pay after the expiration of 12 hours at the away from home crew base instead of the first 8 hours as that which applies in the NEC Agreement. In addition, the Off-Corridor Agreement does not pay overtime after 40 hours per week for road service and provides for firemen (who must be qualified as engineers) on runs of four hours or more between crew change points. The Off-Corridor Agreement also provides a short-turnaround rule which gives the carrier one free hour in determining total time on duty.

SENATOR ANDREWS: What is the difference between the new labor agreements versus the freight industry's dual basis of pay arrangements (i.e., compensation for train mileage or hours of service)? Please elaborate.

ANSWER: The basic differences between Amtrak agreements and traditional agreements in the railroad industry are that employees are paid on a hourly basis instead of on a mileage basis. The Amtrak agreements provides that 8 hours will constitute a days work instead of 100-150 miles. They also enable longer runs than possible under existing agreements. The agreements will also allow greater freedom in the use of road crews to do switching work in connection with their own train and numerous crew consist rules will be consolidated into one rule that will reduce the number of train and engine crew members.

TAX-EXEMPT BONDS

SENATOR ANDREWS: Does Amtrak need statutory authority to sell tax-exempt bonds?

ANSWER: Yes. Amtrak requires statutory authority to issue tax-exempt bonds secured by designated revenues, subject to the approval of the Secretary of Transportation. Amtrak would expect that the legislation amending the Internal Revenue Code to make its securities tax-exempt would also exempt such securities from the provisions of the Government Corporation Control Act under which the Secretary of the Treasury may prescribe terms and conditions of securities offered by Amtrak to the public.

SENATOR ANDREWS: What would the repayment of these bonds be tied to? That is, would they be revenue bonds or general obligation bonds tied to other activities like revenue enhancement?

ANSWER: Amtrak has requested authority to sell tax-exempt revenue bonds that would be secured by the proceeds from the particular project being financed or by the steady stream of revenues that Amtrak is beginning to generate through its revenue enhancement activities and non-rail projects, such as leases for fiber optics cable and other long term real estate leases.

SENATOR ANDREWS: How much in tax-exempts is Amtrak thinking of issuing?

ANSWER: In order to maintain a modern and efficient rail passenger system and to take advantage of opportunities to enhance revenue generation from non railroad properties, Amtrak foresees an annual capital requirement of $100-$150 million. Amtrak expects to generate approximately $35 million from internal sources in FY 87 and to approach $80 million by the end of the decade. Amtrak would expect its bonding authority to generate the funds to complete its annual capital requirement. The principal amount of any bond issue will necessarily depend on and be limited by the size and quality of the revenue stream supporting such issue. No issues are planned for the immediate future.

NORTHEAST CORRIDOR IMPROVEMENT PROGRAM

SENATOR ANDREWS: For fiscal year 1986 Amtrak received approximately $12 million for capital improvement projects on the Northeast Corridor. How does Amtrak intend to spend that money?

ANSWER:

Project	$(Millions)
New York Tunnels Electrical & Mechanical	0.9
Reverse Signalling - Phila. to Morrisville	2.0
Concrete Ties, CWR, and Undercutting	9.0
TOTAL	11.9

SENATOR ANDREWS: How does this schedule compare with that approved in the Conference Report accompanying the Continuing Appropriations Bill (Public Law 99-190) for fiscal year 1988?

ANSWER: The information follows:

	Millions of Dollars			
Item	(Public Law 99-190) FY86 Appropriations	(Amtrak) FY86 Proposed	FY86 Gramm-Rudman Adjustment	(Amtrak) FY86 Revised Proposal
Warren St. Br.	2.3	-	-	-
NY Tunnels	2.5	0.9	-	0.9
Reverse Signal	3.7	2.0	-	2.0
Concrete Ties, CWR, Undercutting	4.0	9.6	(.6)	9.0
TOTAL	$12.5	$12.5	$(.6)	$11.9

SENATOR ANDREWS: Why are there differences?

ANSWER: Last year, the House Committee report accompanying the Department of Transportation Appropriations bill, included specific assumptions regarding the allocation of $12.5 million appropriation for the Northeast Corridor Improvement Project for Fiscal Year 1986. Because of the changing environment in which Amtrak must operate, the following revisions have been proposed:

- Increase monies for Concrete Ties, Continuous Welded Rail and Undercutting from $4.0 million to $9.6 million in FY86. We would use $2.9 million of the $5.6 million increase to continue the installation of concrete ties and continuous welded rail on our high speed tracks between Morris, PA and Holmes, PA, on the New York Division. This area presently has wood ties, and if concrete ties are not installed this year, a major wood tie replacement program will be required within three years. Delaying the installation of concrete ties would result in an unused investment in the ties and the added cost of storage. The remaining $2.7 million will be used for undercutting trackage where concrete ties have been installed.

  Amtrak proposes to make the following changes in the other programs to provide the necessary funds for completing the above projects.
- The Warren Street Bridge reconstruction can be deferred until FY87. Work is underway on the nearby Union Street Bridge, and it will be completed in March, 1987.
- The New York Tunnel Electrical and Mechanical project during FY86 will consist of a complete evaluation and upgrading of the wiring system in the tunnels. The estimated cost for this work is $900 thousand. The construction portion of this project will be accomplished in FY87 and 88.
- The Reverse Signalling project is underway, and the progress to date indicates that we can complete this project with a $2 million expenditure during FY86.

SENATOR ANDREWS: How much in Northeast Corridor funds provided in previous appropriations carried over into FY 1986?

ANSWER: At the end of FY 1985 pursuant to the grant agreement effective September 30, 1985, the Federal Railroad Administration obligated $202.3 million of NECIP funds in a grant to Amtrak.

SENATOR ANDREWS: Were all these funds obligated? How much and for what projects?

ANSWER: All of these funds were obligated at the signing of the grant agreement for those listed projects as shown in Appendix A to the NECIP Grant Agreement.

APPENDIX A

NECIP GRANT AGREEMENT PROJECTS AND BUDGET

	TRACK WORK RELEASE	DOLLARS (000)
	AQ-103 EQUIP PROC	0.193 (1)
	AQ-104 EQUIP & VEH LS	0.047
*1	AU-106 INTERLOCKING	2.984
	AU-110 TRACK SUPPORT	1.041
2	TRACK TOTAL	4.265

	TUNNELS WORK RELEASE	DOLLARS (000)
	AT-102 E.T. TUN PROT	0.024
*3	AT-200 B&P TUN (RELOC. HOUSING)	0.175
4	TUNNEL TOTAL	0.199

	SECTION IMPROVEMENTS WORK RELEASE	DOLLARS (000)
	AH-102 FHD FAIR-LINC	2.492
	AH-107 MHD ATTLE-FOR	0.134
	AH-110 CHG RVR-BUSH	0.605
	AH-112 FHC LINC-HUD	0.287
	AH-119 GHX HAR-SHELL	0.309
	AH-120 DHA 54TH ST	-1.264
	AH-121 DHX RAGAN-BALD	-0.633
*5	AH-122 MUD S.COVE-BOST.	2.771
*6	AH-124 B&P/UNION I/L	8.021
*7	AH-125 TRIP TIME IMPR.	3.815
	AH-999 CONTINGENCY	4.062
8	SECTION IMPROV TOTAL	20.599

	BRIDGE & BLDG WORK RELEASE	DOLLARS (000)
	AB-102 BRIDGE IMPROV	4.224
	AB-105 NIANTIC BR	0.240
	AB-107 MYSTIC BR	-0.595
	AB-110 PORTAL BR	0.867
	AB-112 SUS RVR BR	1.112
	AB-999 CONTINGENCY	2.525
	AL-100 STATION IMPROV.	-0.081
*9	AL-101 30TH ST REHAB	4.426
*10	AL-102 PASS INFO SYS	1.959
*11	AL-103 BOS SO STA	2.443
*12	AL-200 BALT PKG GAR	2.000
13	BRIDGE & BLDG. TOTAL	19.120

	COMM & SIGNALS WORK RELEASE	DOLLARS (000)
	AC-100 OPER. RAD SYS.	0.345
*14	AC-101 FIBER OPTICS	1.749
*15	AS-101 INST. SIG. SYS.	11.985
*16	AS-102 MAIN. EXP. SIG.	2.217
	AS-103 HAZ. DET. EQUIP	1.148
*36	AS-105 CETC	9.930
	AS-200 NEW HOOK I/L	1.000
17	COMM & SIGNAL TOTAL	28.374

	E.T. WORK RELEASE	DOLLARS (000)
*18	AE-100 E.T. REHAB	1.765
*19	AE-103 CAT REHAB	4.982
*20	AE-104 PWR. SUP. CONV.	1.984
21	E.T. TOTAL	8.731

	M/W BASES WORK RELEASE	DOLLARS (000)
22	AY-104 BOST. SERW FAC	11.672
*23	AY-106 WILM. SERV. FAC	10.572
	AY-107 NY SERV. FAC	0.850
*24	AY-109 WASH. SERV. FAC	9.676
25	M/W BASE TOTAL	32.770

	ADMINISTRATION WORK RELEASE	DOLLARS (000)
	AJ-102 WORK CAP ADV	-12.848
	AJ-104 NEW TECH TRNG	0.125
	AJ-105 DCP SUPPORT TO AMTRAK	0.000
	AJ-106 OUT LEGAL FEES	0.562
	AJ-107 WITNESS FEES	0.010
*26	AJ-108 FELA CONTINGENCY	2.000
*27	AM-013 INS CLAIMS	14.451
	AN-101 COST ADJ ALLOW	1.460
	AN-102 CREDIT W/R	0.008
8	ADMINISTRATION TOTAL	5.768

	OTHER WORK RELEASE	DOLLARS (000)
*29	AA-ATL ATLANTIC CITY PROJ.	30.000
	AZ-ZZZ COTR CONTINGENCY	2.839
	AZ-AMT AMTRAK RESERVE	27.123 (2)
30	OTHER TOTAL	59.962

	1985 APPROPRIATION *WORK RELEASE*	DOLLARS (000)
*31	AB-113 UNION BRIDGE	2.400
*32	AS-106 REVERSE SIGNAL	5.774
*33	AT-104 NY TUN REHAB	1.700
*34	AU-114 TLS	12.599
35	1985 APPROPRIATION TOTAL	22.473
	TOTAL	202.261

(1) Expenditures reduced $3 million to reflect credit offset to incurred cost (see W/R Revision No. 18).

(2) Includes dollars authorized in inactive W/Rs not spent under Contract DOT-FR-T3003.

SENATOR ANDREWS: Were any of these carryover funds not obligated?

ANSWER: No, the remaining NECIP funds pertaining to work assigned to Amtrak or its contractors were turned over to Amtrak by FRA under the agreement.

SENATOR ANDREWS: What projects were scheduled to receive the unobligated funds?

ANSWER: There are no unobligated funds.

SENATOR ANDREWS: Are all the obligated and unobligated funds consistent with previous Congressional earmarks? If not, why not? If so, which funds, for what projects?

ANSWER: The Federal Railroad Administration has advised Amtrak that previous Congressional earmarks of NECIP funds are reflected in the grant agreement between FRA and Amtrak. Subsequent to 1985 Amtrak became the project manager. Prior to FY85 the FRA was the project manager and was therefore responsible for implementing any Congressional direction with respect to appropriated NECIP funds. As indicated previously, Amtrak has also sent a letter to the Subcommittee requesting permission to reprogram NECIP funds appropriated in FY86.

SENATOR ANDREWS: Have any activities previously earmarked by Congress needed less funding than originally provided? If so, which ones and what did Amtrak do with the overfunding?

ANSWER: Yes, Amtrak is currently seeking permission from the Committee to reprogram NECIP funds appropriated in FY 1986:

° The New York Tunnel Electrical and Mechanical project. The estimated cost for this work for FY86 will be $900 thousand instead of the $2.5 million appropriated for the project. The construction portion of this project will be accomplished in FY87 and 88.

° The Reverse Signalling project can be completed with a $2 million expenditure, not the $3.7 million appropriated during FY86.

° In addition, the $2.3 million appropriated for the Warren Street Bridge reconstruction can be deferred until FY87. Work is underway on the nearby Union Street Bridge, and it will be completed in March, 1987.

SENATOR ANDREWS: Did any of the previously earmarked projects require more funds than originally estimated? If so, which ones?

What was the amount of overrun for each? Where did the additional funds come from?

ANSWER: Amtrak proposes to increase monies for Concrete Ties, Continuous Welded Rail and Undercutting from $4.0 million to $9.6 million in FY86. Amtrak would use $2.9 million of the $5.6 million increase to continue the installation of concrete ties and continuous welded rail on our high speed tracks between Morris, PA and Holmes, PA, on the New York Division. This area presently has wood ties, and if concrete ties are not installed this year, a major wood tie replacement program will be required within three years. Delaying the installation of concrete ties would result in an unused investment in the ties and the added cost of storage. The remaining $2.7 million will be used for undercutting trackage where concrete ties have been installed.

SENATOR ANDREWS: Provide the Committee for the record Amtrak's latest list of Northeast Corridor Project activities. Brief description and estimated costs with priority ranking.

ANSWER: The following is a list of projects that remain authorized, but have not been funded under the Northeast Corridor Improvement Project. Amtrak has priortized the projects and updated the cost of each to 1986 dollars.

Revised 4/14/86

PROPOSED ADDITIONAL IMPROVEMENTS - NECIP PROGRAM

		Total 1986 $ (Millions)	1986	1987	1988	1989	1990	1991
1.	Warren Street Bridge - Rehabilitation of bridge over Warren Street in Trenton, N.J., consist of replacement of the bridge superstructure as well as repairs to the substructure at street level to provide for safer pedestrian walkways while upgrading the bridge to higher standards. This bridge was deleted from original NECIP Program.	3.6	--	3.6	--	--	--	--
2.	New York Tunnel Electrical & Mechanical - Rehabilitation of the New York Tunnels located between Weehauken, N.J. and Long Island, N.Y. consisting of major renovations of the mechanical and electrical systems (lighting, drainage, and pump systems) to provide a safer and more efficient environment for train service.	5.7	0.9	4.8	--	--	--	--
3.	Install reverse signalling between Grundy and Morrisville on #2 and #3 Tracks - This will complete reverse signalling on the designated tracks between New York and Philadelphia and provide flexibility to operate trains on alternate tracks with signal indications.	2.0	2.0	--	--	--	--	--
4.	Install 61.1 track miles of concrete ties, CWR, and undercutting between Washington and New York - Replace wood tie track with concrete tie track in areas not covered by the present NECIP Program on the designated high speed tracks.	41.8	9.1	15.6	17.1	--	--	--
5.	Renew 120.1 Track miles of existing fit CWR with new CWR on concrete tie track between Washington and New York. Replace worn-out Continuous Welded Rail (CWR) not included in the present NECIP Program to improve ride quality and track reliability.	42.4	--	--	--	25.4	8.5	8.5
6.	New York Service Facility with enclosed car washer and track renewals - to provide a centralized facility for the reliable maintenance of Amtrak rolling stock. This item was deleted from the original NECIP Program.	27.3	--	--	6.9	6.8	6.8	6.8

		Total 1986 $ (Millions)	1986	1987	1988	1989	1990	1991
7.	Install CETC from Landlith to Philadelphia - This addition from North of Wilmington, Delaware to Philadelphia will complete the Centralized Electric Traffic Control (CETC) System between Washington and Philadelphia. This will provide automatic control of train operations and electric traction operations from a centralized location in Philadelphia.	6.6	--	--	--	4.0	1.3	1.3
8.	Bridge Rehabilitation, South of New York (Including Hi-Line) - Rehabilitate bridge structures that have deteriorated due to deferred maintenance which were deleted from original NECIP Program.	67.8	--	--	40.7	9.1	9.0	9.0
9.	Additional catenary renewal and power supply upgrading Washington to New York - To upgrade the existing electric traction facilities for more reliable high speed service by rehabilitating 20 transformers, renewing wire between Penn Station, N.Y. and Newark, N.J. and painting twenty (20) miles of catenary pole structure.	7.7	--	--	--	2.6	2.6	2.5
10.	E.T. Rehabilitation - To replace insulators and transmission line in areas of non-NECIP Program work. To bring the Washington to Wilmington level of rehabilitation in line with the remainder of the Corridor.	2.2	--	--	--	0.8	0.7	0.7
11.	Restore 20 Track miles ditch drainage in concrete tie locations between Washington and New York - Improve drainage in areas not included in present Section Improvement work to improve track stability.	3.1	--	--	--	--	1.6	1.5
12.	Track Rehabilitation. Rehabilitate North Philadelphia, Dock at Newark, N.J. and other interlocking turnouts on non-designated tracks that were deleted from the original NECIP Program. Also, joint elimination work for better ride quality and undercutting to improve drainage of concrete tie trackage in multi-track territory.	11.2	--	--	6.7	1.5	1.5	1.5

		Total 1986 $ (Millions)	1986	1987	1988	1989	1990	1991
13.	Track Improvements consisting of high speed surfacing, improvement of geometry at Interlockings, Rehabilitation of N.Y. Penn Station Interlockings, and ballast cleaning with associated equipment repair, brush cutting and material distribution. To improve ride quality thru the interlocking switches on the Corridor by placing final track geometry thru the interlockings. At Penn Station N.Y. rehabilitate deteriorated light weight turnouts and track structure. Also, ballast cleaning, equipment repair, brush cutting and material distribution which were deleted from original NECIP Program	20.4	--	--	5.1	5.1	5.1	5.1
14.	Install New York Tunnel evacuation and fire protection facilities - To install fire protection, water lines and lighting for the safer evacuation of passengers in an emergency. These facilities are mandated by the New York City Fire Department.	23.1	--	--	13.9	3.1	3.1	3.0
15.	Roadbed Stabilization at various locations between Washington and New York - To stabilize the track roadbed at various locations where irregularities are frequent, due to subgrade instability.	3.7	--	--	--	1.3	1.2	1.2
16.	Rehabilitate Interlockings removed from Program between Washington and New York - To rehabilitate the interlocking turnouts on non-designated tracks that were deleted from the original NECIP Program.	16.2	--	--	4.1	4.1	4.0	4.0
17.	Construct M/W Bases at Philadelphia, Sunnyside and Cedar Hill - To establish centralized headquarters for all M/W personnel at these locations to replace scattered, inadequate present facilities. These bases were deleted from the original scope of the NECIP Program.	15.3	--	--	--	9.2	3.1	3.0

		Total 1986 $ (Millions)	1986	1987	1988	1989	1990	1991
18.	Rehabilitation of structural, electrical, and mechanical systems at 30th Street Station - To upgrade the antiquated operating facilities in the 30th Street Station building. The present electrical, mechanical and structural facilities do not have the capacity of supporting present day office machines, computers and heating and cooling requirements.	17.0	--	--	--	10.2	3.4	3.4
19.	30th Street Station - Station facility improvements are required at the station complex to overcome for many years the lack of upgrading and repair/renewal of fixed facility items including structural, mechanical, electrical, and civil components.	7.0	--	--	--	2.4	2.3	2.3
	TOTAL	324.1	12.0	24.0	94.5	85.6	54.2	53.8

NORTHEAST CORRIDOR IMPROVEMENT PROJECT

SENATOR ANDREWS: If the amount requested for Northeast Corridor work is provided ($24 million) will this complete the Warren Street Bridge, the New York Tunnel work and the installation of concrete ties.

ANSWER: The $24 million funding would complete the work on the Warren Street Bridge, and the New York Tunnels. However, additional funding would be required to complete the installation of concrete ties.

SENATOR ANDREWS: How much work remains (dollars and time) on those projects not completed with the requested Fiscal Year 1987 amount?

ANSWER: To complete the concrete tie installation with CWR and undercutting, where needed, would require additional funding of $17.1 million in FY88.

SENATOR ANDREWS: How much through FY86 has been spent on concrete tie work in the Northeast Corridor? (Provide amount by year).

ANSWER: The accumulated cost for concrete ties includes all work associated with the project. This includes the renewal of (CWR) Continuous Welded Rail and undercutting where required).

Calendar Year	$(In Millions)
CY78	11.0
CY79	21.6
CY80	28.5
CY81	16.6
CY82	19.5
CY84	3.9
CY85	12.0
TOTAL	$113.1

OMNIBUS BUDGET RECONCILIATION ACT OF 1985

SENATOR ANDREWS: The Reconciliation Act of 1985 contained a number of legislative changes which could increase Amtrak's revenues. What is your estimate of the additional revenue possible to Amtrak because of these changes?

ANSWER: The legislative changes contained in this Reconciliation Act could increase Amtrak revenues by up to $30 million a year when fully implemented.

SENATOR ANDREWS: What changes bring in what amount of money?

ANSWER: The bulk of the increase relates to the modification of the cost allocation criteria used by Amtrak to bill freight railroads for the use of the Northeast Corridor. This could result in a $20-$25 million revenue increase, most of which would come from Conrail.

Amtrak understands, however, that there are plans to reroute a significant portion of this freight over non-Amtrak lines -- a development Amtrak favors because of its favorable long-term impact on ride quality and maintenance-of-way costs, despite its short-term impact on revenues.

The remainder of the revenue increase comes from other provisions of the law, such as the authority to transport unaccompanied automobiles on the Auto Train, and the participation of Amtrak as a preferred carrier in the Federal employee travel program administered by the GSA. We cannot determine these amounts now with any confidence.

SENATOR ANDREWS: How long do you estimate it will take to fully realize the additional revenues?

ANSWER: Except for the revenue related to the Federal employee travel program which will grow over time, it is estimated that it will be between 6 months and a year before Amtrak will experience any significant revenue increases from these legislative changes.

No additional revenue from freight operations over the NEC could be realized for at least six months, since this has to be submitted to and approved by the Interstate Commerce Commission, and under an existing agreements Amtrak cannot make formal application to the ICC for 90 days.

TRAIN OPERATIONS

SENATOR ANDREWS: The largest category of expenses of Amtrak is Train Operations. How much of the 1987 level of $391.9 million is for salaries?

ANSWER: The total Train Operations expense includes approximately $10 million in Amtrak supervisory salaries, $152 million for union wages, with an additional $58 million for fringe benefits for a total of $220 million (56 percent).

SENATOR ANDREWS: How much is for Amtrak's salaried employees and how much is for employees of other railroads that operate trains for Amtrak?

ANSWER: Within the approximately $220 million of wages, salaries and benefits from Train Operations expenses, $164 million is for Amtrak employees. Of this, approximately $10 million is for supervisory salaries, $111 million in union wages and $43 million for fringe benefits.

The remaining $56 million is for wage and benefits for employees of other railroads.

SENATOR ANDREWS: How much of this (dollar and percentage) is for power and fuel?

ANSWER: Fuel and power represent approximately $98 million or 25 pe[illegible] of the train operations expenses.

SENATOR ANDREWS: Does Amtrak expect to realize any savings in this area in Fiscal Years 1986 and 1987 due to the recent drop in oil prices to below $10 dollars per barrel? If so, how much? If not, why not?

ANSWER: Assuming that fuel prices remain at their current level, Amtrak should realize a fuel savings of approximately $5 to $6 million over the remainder of Fiscal Year 1986.

Should prices continue at these levels through Fiscal Year 1987, an additional saving of $5 to $6 million would be realized.

Since these same fuel prices have an important impact on airline costs and individual decisions to drive their cars rather than take the train, it is very likely that Amtrak revenues would be adversely impacted by amounts much greater than our fuel savings.

Hence, Amtrak does not anticipate any real budget relief from fuel savings and may, in fact, incur a budget problem.

MAINTENANCE OF EQUIPMENT

SENATOR ANDREWS: The $5.4 million increase for Maintenance of Equipment is primarily for work in Heritage and Superliner equipment. What is the average age of the equipment (years and miles)?

ANSWER: The Heritage equipment is approximately 40-50 years old and has been in service for 7 years and slightly over 1 million miles per car since it was rebuilt with head-end power.

The Superliner equipment is 6 years old and has logged an average of 1.2 million miles per car.

SENATOR ANDREWS: What is the expected life of the equipment and on what routes is it used?

ANSWER: The Heritage equipment, with proper maintenance, has a life expectancy at its present usage rate of approximately 14 years. On a standby basis, for use in peak periods only, it could easily serve for 25 to 30 more years. The equipment is used predominantly on intermediate to long distance routes east of Chicago such as the Broadway from New York to Chicago, the Lake Shore from New York and Boston to Chicago and the New York to Florida service.

Superliner equipment has a life expectancy of 40 to 45 years and is used on our western long distance routes operating out of Chicago, New Orleans, Los Angeles, Oakland, and Seattle.

SENATOR ANDREWS: The second largest category of Amtrak's expense is Maintenance of Equipment. Please provide the Committee a breakdown by dollar amount of the major activities in this category?

ANSWER: The information follows.

MAINTENANCE OF EQUIPMENT
($ MILLIONS)

PROGRAMS	FY86 PROJ.	FY87 EST.	FY87 VS. FY86 $	FY87 VS. FY86 %
Car Running Repairs	119.8	120.0	0.2	0.2%
Car Heavy Repairs	31.3	35.0	3.7	11.8%
Locomotive Running Repairs	47.7	47.7	0.0	0.0%
Locomotive Heavy Repairs	12.8	14.3	1.5	11.7%
Other Equipment Running Repairs	14.4	14.4	0.0	0.0%
Other Equipment Heavy Repairs	2.3	2.3	0.0	0.0%
Support	102.7	102.7	0.0	0.0%
Commuter Maintenance	7.7	7.7	0.0	0.0%
Revenue Enhancement Projects	2.4	2.4	0.0	0.0%
Other	3.4	3.4	0.0	0.0%
Total	344.5	349.9	5.4	1.6%

Support includes vacation and holiday pay related to all other catagories.

FY 87 shown in constant FY 86 dollars.

SENATOR ANDREWS: What did not get done in this area because of the Gramm-Rudman-Hollings cuts in Fiscal Year 1986?

ANSWER: The Gramm-Rudman-Hollings cut of over $11 million reflects a 6.5% reduction to the maintenance of equipment program for the last 6 months of Fiscal Year 1986. In order to effect the reduction, periodic and heavy overhaul schedules have been revised to extend the time between servicing. Locomotive overhauls have been changed from a 3 year to a 4 year cycle while periodic car overhauls have been extended from 120 to 180 days. We believe that we have extended the maintenance cycles beyond the capability of the equipment. In Fiscal Year 1987 we have requested a $5.4 million restoration to prevent any further slippage in essential maintenance.

MAINTENANCE OF WAY

SENATOR ANDREWS: The Fiscal Year 1987 increase for Maintenance of Way is planned to cover increasing requirements to maintain high speed standards in the Northeast Corridor and from essential right-of-way improvements. Please elaborate for the Committee on the right-of-way improvements and the activities necessary to maintain high speed standards.

ANSWER: Right-of-way improvements are basically improvements made to the roadbed and track that improve the ride quality of the equipment. This covers the upgrading of track through tie replacement programs, replacing sectional rail with continuous welded rail, undercutting and the surfacing of interlockings. In order to maintain the existing high speed capability of the Northeast Corridor, the track and roadbed must be maintained to much higher standards than are required for lower speed freight railroad. These are fixed by F.R.A. regulations.

SENATOR ANDREWS: What Maintenance-of-Way activities were not done in Fiscal Year 1986 because of Gramm-Rudman-Hollings limitations?

ANSWER: The Gramm-Rudman-Hollings funding reduction has resulted in reducing the scope of the programmed maintenance-of-way for Fiscal Year 1986 especially in the areas of undercutting and the number of interlockings planned for resurfacing. Amtrak deferred portions of the programs into Fiscal Year 1987 and proposed $5.8 million be restored in the Fiscal Year 1987 funding request.

ON-BOARD SERVICES

SENATOR ANDREWS: What capital improvements and food and beverage controls were implemented that reduce the On-Board Services operating expenses?

ANSWER: The expense reduction in the On-Board Service program reflects the implementation of an automated train provisioning management system which will improve controls over food inventories and reduce condemnage.

Operation and maintenance cost of food handling in Washington and Boston will be reduced due to the completion of new and more efficient facilities at these two locations.

SENATOR ANDREWS: The food and beverage service is projected to cost $80.3 million (plus inflation) in FY 1987. Does revenue from this service cover expense? Provide for the committee a table for fiscal years 1985, 1986 and 1987 on costs versus revenues.

ANSWER: The information follows:

	$ Millions Food and Beverage Revenue 1_/	 Expense
1985	87.2	87.2
1986 estimate	83.1	83.1
1987 projection 2_/..........	83.6	83.6

1_/ Includes authorized allocation of up to 10 percent of Transportation Revenues for food and beverage.

2_/ Fiscal Year 1987 expenses are in estimated Fiscal Year 1987 dollars for consistency in comparison to revenue.

SENATOR ANDREWS: Under Gramm-Rudman-Hollings, expenses for On-Board Services were not cut. Why?

ANSWER: The On-Board Services program was reduced by approximately $6 million as part of the $68 million reduction required by the FY86 Appropriation Act. With no additional service reductions programmed, any further reduction in this area would significantly impact the quality of service for the peak summer season.

STATION SERVICES

SENATOR ANDREWS: Amtrak estimates that approximately $.3 million will be saved through capital improvements and selected station closings. How many and which stations are scheduled for closing?

ANSWER: There is no specific list of stations scheduled for closing in FY87; however, in FY85 staffing was eliminated at 11 stations, ten of which were staffed by railroad personnel. So far in FY86, staffing has been discontinued at 12 stations, eight of which were staffed by railroad personnel. This is an ongoing process; marginal stations are constantly reviewed for cost, revenues, ridership and other pertinent information -- number and location of travel agencies, etc. Then based on this collective information consideration is given for the discontinuance of staffing.

SENATOR ANDREWS: Is Amtrak planning complete closings or reduced services in these stations? Are these Amtrak owned stations or owned by other railroads?

ANSWER: Management continually monitors station staffing, making adjustments as necessary. Staffing in some locations is reduced in the "off" season and reinstated during the summer months and Thanksgiving/Christmas holidays.

Amtrak presently owns or partially owns 76 stations, (including shelters) out of 505 locations. At the present time, there are approximately 60 stations which are staffed by railroad personnel and 222 staffed by Amtrak personnel. At many of the railroad staffed locations, the employees are also freight agents. As the railroads continue to consolidate their offices, Amtrak is sometimes notified that the railroad can no longer handle ticket and baggage/express functions at a specific location. When this occurs Amtrak evaluates revenue, ridership, labor and operating expenses to determine if it is beneficial to the Corporation to continue staffing.

SENATOR ANDREWS: What capital improvements generate savings in this category.

ANSWER: The capital improvements for station services for FY87 are related to safety. The savings would be generated by improving station operations, avoiding future claims to the Corporation, and providing safe facilities for our passengers and employees.

SENATOR ANDREWS: Under Gramm-Rudman-Hollings, station services were not cut to achieve the 4.3 percent cut level. Why not?

ANSWER: In our efforts to effect the $68 million reduction required by the FY86 Appropriation Act, the station service program was cut by approximately $2 million below FY85 levels. This was accomplished by the selective abolishment of positions throughout the system, with every effort made to maintain the maximum amount of service possible.

Amtrak believed that further reductions in this area would seriously encumber its ability to provide adequate service levels.

MARKETING RESERVATIONS

SENATOR ANDREWS: How much of the Fiscal Year 1986 and Fiscal Year 1987 Marketing and Reservations costs are for local advertising? How much for national advertising?

ANSWER: The FY 1987 budget has yet to be specified. However, in FY 1986, the vast majority of Amtrak's media budget was spent on advertising of a local nature. In fact, Amtrak does not purchase network television as a rule. All television commercials are purchased on a station-by-station basis, and each commercial is localized with voice messages specific to the markets involved.

The only media which Amtrak purchased which might be construed as national is magazine or print media. Amtrak advertises in several national magazines and Sunday newspaper supplements. These ads, along with ads for the travel trade and military, account for a little over one-quarter of Amtrak's advertising. In view of Amtrak'ssuccess in increasing revenues in FY86, it is likely that this pattern will be repeated with little modification in FY87.

SENATOR ANDREWS: In the face of Gramm-Rudman-Hollings cuts Amtrak did not reduce expenses incurred in Marketing and Reservations. Why not?

ANSWER: Amtrak's initial budget reduced Marketing and Reservations expenses by approximately 4 percent below the FY85 levels. In view of the very high volume of ridership activity Amtrak believed that further FY86 reductions in this area would be counterproductive.

GENERAL SUPPORT

SENATOR ANDREWS: What actions are planned for Fiscal Year 1987 to reduce general support operating expenses by $5.5 million?

ANSWER: The 5 percent reduction is a corporate goal established to reduce the support and overhead expenses of the Corporation. Amtrak plans to achieve the reduction by increasing the use of its automated system capabilities, consolidating support functions wherever possible, streamlining levels of supervision, encouraging more efficient space utilization and other productivity related improvements.

INSURANCE AND INTEREST

SENATOR ANDREWS: Amtrak estimates that property and personal liability insurance requirements will increase $6.5 million over the Fiscal Year 1986 level. What was the total amount spent in Fiscal Years 1985 and 1986 for property and personal liability insurance?

ANSWER: The amount spent for property and personal liability insurance in Fiscal Year 1985 was $43 million and Amtrak estimates that in Fiscal Year 1986 it will be $50 million. These expenditures are essential, for Amtrak's protection, and the increases are in line with those experienced by others in the transportation and travel business.

SENATOR ANDREWS: What savings did Amtrak realize in Fiscal Year 1985, expect in Fiscal Year 1986 and plan in Fiscal Year 1987 for reduction in lost employee time due to injuries?

ANSWER: Reviewing employee claims on a constant dollar per employee basis, no savings have been realized during Fiscal Year 1985 and Fiscal Year 1986. However, for Fiscal Year 1987, Amtrak is estimating a $105 per employee savings in this area. Total Fiscal Year 1987 expenses in current year dollars are projected to decline by $700 thousand, as safety program measures become more effective.

GENERAL AND ADMINISTRATIVE EXPENSES

SENATOR ANDREWS: What specific actions are planned by Amtrak to reduce general and administrative expenses by 5 percent from the Fiscal Year 1986 level? ($30.2 million versus $28.7 million in 1987).

ANSWER: The 5 percent reduction is a corporate goal that was established to reduce the administrative expenses of the Corporation. Amtrak plans to achieve the reduction by streamlining levels of supervision, consolidating support functions wherever feasible, increasing the use of automated system capabilities and through other productivity related improvements.

SENATOR ANDREWS: Amtrak did not cut any costs in the General and Administrative expenses area to comply with Gramm-Rudman-Hollings. Why not?

ANSWER: Amtrak's General and Administrative expenses were reduced by approximately 10 percent below FY85 levels as part of the $68 million reduction required by the FY86 Appropriation Act. Amtrak believed that any further reduction in this area would be unwise and counterproductive.

PERSONNEL LEVELS

SENATOR ANDREWS: Please provide the committee the personnel levels (by expense category) for Fiscal Years 1984, 1985, 1986 and requested in 1987. Show separately the Amtrak salaried employees and non-Amtrak employees?

ANSWER: The information follows:

AMTRAK EMPLOYMENT

	FY84	FY85	EST. FY86	EST. FY87
TRAIN OPERATIONS	5,756	5,776	5,479	5,196
MAINTENANCE OF EQUIPMENT	6,568	6,245	5,838	5,900
MAINTENANCE OF WAY	2,840	2,964	2,762	2,770
ON BOARD SERVICES	2,419	2,554	2,468	2,479
STATIONS	2,011	2,016	1,986	1,974
MARKETING/RES.	1,254	1,289	1,228	1,121
GENERAL SUPPORT	1,579	1,619	1,672	1,589
INSURANCE/INT.	6	5	5	5
GENERAL & ADMIN.	458	452	464	441
TOTAL	22,891	22,920	21,902	21,475
AMTRAK	17,791	18,630	19,162	19,685
RAILROAD	5,100	4,290	2,740	1,790
	22,891	22,920	21,902	21,475

REVENUE PROJECTIONS

SENATOR ANDREWS: The latest estimate for Fiscal Year 1986 revenues is $895 million and $950 million for Fiscal Year 1987, a $55 million increase. Where does Amtrak expect to realize the increased revenue?

ANSWER: Approximately half of the revenue increase, $27 million, is projected to come from transportation and food revenue increases. Enhancement revenue is also projected to increase by over $12 million. The remainder will be generated through small increases in mail and express revenues, real estate revenue and commuter revenues.

SENATOR ANDREWS: What makes up the $30 million expected Real Estate revenue?

ANSWER: The $30 million in real estate revenue is derived from leasing retail and shop space in Amtrak stations such as at Penn Station in New York, 30th Street Station in Philadelphia and Union Station in Chicago; and from leasing other property and property rights around the country.

SENATOR ANDREWS: State payments are estimated at $14 million. What are the expenses associated with state supported trains?

ANSWER: The following schedule reflects the projected 403(b) program for Fiscal Year 1987:

	$ Millions
Short term avoidable costs	$48.0
Passenger related revenues	31.9
Short term avoidable deficit	16.1
State 403(b) contribution	14.0
Amtrak Contribution	$ 2.1

On a long term avoidable cost basis the Amtrak contribution would be approximately $9 million.

SENATOR ANDREWS: Commuter operating payments are $64 million. From whom (states, authorities, local governments) does Amtrak receive the estimated $64 million? Does this cover Amtrak's cost of providing commuter train service? (Please elaborate).

ANSWER: The $64 million in commuter revenues estimated for Fiscal Year 1987 will come from the following sources:

	$ Millions
New Jersey D.O.T.	$ 33.1
Southeastern Pennsylvania Transit Authority	18.3
Maryland D.O.T.	3.5
Massachusetts Bay Transportation Authority	4.1
Northeast Illinois Regional Commuter Railroad	5.0
	$ 64.0

Amtrak estimates that for the basic contracted service provided in the Northeast Corridor, an additional $25 million would be required to fully cover Amtrak's cost of supporting commuter train service.

SENATOR ANDREWS: Provide the Committee a breakdown of the $42 million estimated for 1987 revenue enhancement activities.

ANSWER: The information follows:

	$ Millions
Car Assembly and Overhaul	$ 8.0
Co-generation	12.2
Telecommunication Resale	3.8
Fiber Optics	4.0
Track Renewal Projects	10.0
Rail Welding	1.5
Computer Systems Software & Supplies	1.0
Equipment Leases	.5
Other	1.0
	$42.0

SENATOR ANDREWS: Over 6 percent of Amtrak's revenues are projected in the area of "Miscellaneous". What comprises the miscellaneous account? (Description of source and associated dollar amounts).

ANSWER: The miscellaneous revenue is comprised of the follwoing:

Source	$ Millions
Equipment Maintenance & Services	4.1
Track and Right-of-Way Maintenance Services	13.7
Transportation Services & Support	10.1
Safe Harbor Revenues	25.0
Other minor amounts	8.1
	61.0

INFLATION ESTIMATES

SENATOR ANDREWS: Rather than assign an inflation or cost increase to each component that makes up Amtrak's operating expenses, the budget justification includes a lump sum estimate of $60 million. What does this estimate cover?

ANSWER: The inflation estimate of $60 million covers all wage, price or rate increases projected for Fiscal Year 1987. The estimate is developed utilizing five major components within Amtrak's cost structure, labor and benefits, fuel and power, materials, food and on-board supplies, and other services and supplies.

SENATOR ANDREWS: How much of the $60 million goes for increased wages for Amtrak employees, and for wages of non-Amtrak employees (i.e., contracted out through other railroads)?

ANSWER: The inflation estimate includes $26 million for wage increases for Amtrak employees including those employees assumed from the railroads as a result of the crew takeovers. There is an additional $2 million included for the remaining non-Amtrak contract railroad employees.

SENATOR ANDREWS: On what basis (percent increase) was the wage increase calculated: Does the actual number of Amtrak employees increase or decrease?

ANSWER: The wage increase of approximately 4 percent was calculated on the basis that all union contract settlements would be consistent with the United Transportation Union contract which went into effect November 1, 1985.

The number of Amtrak man years of labor is projected to increase by approximately 500 over FY86. The increase results from the phased takeover of train and engine crews throughout FY87.

SENATOR ANDREWS: On what basis (percentage) were other items calculated (other than wages)?

ANSWER: The inflation percentages for the non-wage categories are as follows:

Fuel and power	1.5%
Materials	5.6%
Food and On-Board Supplies	5.0%
Other Services & Supplies	4.4%

SENATOR ANDREWS: Provide the Committee a Fiscal Year 1987 grant request with the $60 million distributed to each of the operating expense components.

ANSWER: The information follows:

NATIONAL RAILROAD PASSENGER CORPORATION
OPERATING EXPENSE COMPARISON
($ MILLIONS)

	FY 1986 Budget		
Operating Expenses	Continuing Resolution Appropriation	Gramm-Rudman March 1,1986 Limitation	FY 1987 Grant Request 1_/
Train Operations	399.4	399.4	408.8
Maintenance of Equipment	356.1	344.5	364.9
Maintenance of Way	164.0	155.6	168.3
On-Board Services	129.8	129.8	134.7
Station Services	107.7	107.7	112.0
Marketing and Reservations	128.7	128.7	133.2
General Support	109.8	109.8	108.6
Insurance & Interest	55.3	55.3	61.8
Depreciation	151.4	151.4	161.1
General and Administrative	30.2	30.2	29.9
Total Operating Expense	1632.4	1612.4	1683.3
Provision for Inflation Increase	--	--	--
Total Expense	1632.4	1612.4	1683.3
Less:			
Expenses Not Requiring Appropriations	153.4	153.4	163.1
Funded Expense	1479.0	1459.0	1520.2
Total Revenue	895.0	895.0	950.1
Less:			
Revenue Reserved for Capital	25.0	25.0	35.0
Revenue Available for Operations	870.0	870.0	915.1
Operating Grant Requirement	609.0	589.0	605.0

1_/ FY 1987 Grant Request shown in FY 1987 dollars.

CAPITAL BUDGET REQUEST

SENATOR ANDREWS: Of the total capital budget request of $64 million, $35 million will be financed from "Revenue Enhancement" activities. Revenue enhancement is estimated to be $42 million in 1987. What happened to the other $7 million?

ANSWER: The $35 million of capital is financed by the net proceeds from the revenue enhancement program. The $7 million is the cost of generating the revenue such as the labor cost and overhead for the BREDA car assembly work at Beech Grove, Indiana and the labor and fuel for the New Haven co-generation plant.

SENATOR ANDREWS: Twenty-seven million dollars ($27 million) is requested for rolling stock. How much is for equipment modification and how much is for new equipment?

ANSWER: Of the $27 million requested for rolling stock, approximately $13.5 million is required for new equipment and $13.6 million is required for equipment modifications.

SENATOR ANDREWS: What new equipment is scheduled for purchase? Why?

ANSWER: Amtrak's purchase of new equipment in FY87 will be limited to the acquisition of new baggage cars. These cars will provide the additional capacity required to capture new mail and express business, and to begin the orderly replacement of aged and deteriorating Heritage Fleet baggage cars.

SENATOR ANDREWS: How is passenger and freight capacity increased through these investments?

ANSWER: Because Amtrak's FY87 investments in new equipment will be limited to the acquisition of new baggage cars, passengers carrying capacity will not be increased. These cars will, however, provide additional capacity to capture new mail and express business.

SENATOR ANDREWS: Of the $5 million requested for maintenance facilities, what is the breakdown between the Los Angeles Facility and the Sunnyside Yard?

ANSWER: Amtrak plans to invest $3 million in Los Angeles to continue a multiyear effort to rebuild the locomotive and car maintenance facilities that are old, obsolete and in need of safety enhancements. As Sunnyside Yard, New York, Amtrak plans to invest $2 million to rebuild deteriorated yard facilities while improving safety and efficiency.

SENATOR ANDREWS: Three million is requested for station improvements. How much does Amtrak estimate will be matched by state, local or private sources of funds?

ANSWER: Approximately two million dollars of the request is programmed to be expended for a heating, ventilation, and air-conditioning system for New York Penn Station. The remaining funds will be matched with funds from state and local governments and from other non-Amtrak sources whenever possible.

SENATOR ANDREWS: How much have state, local or private parties contributed to Amtrak station improvements? Please elaborate - provide best estimate for past several years.

ANSWER: During 1986, the following station improvement/new construction projects were planned and will be completed using matched or 100% state/local funding.

STATION	AMTRAK FUNDING	OTHER	TOTAL
Springfield, IL	$ 250,000	$ 250,000	$ 500,000
Detroit, MI	$ 900,000	$3,750,000	$ 4,650,000
Albany, NY	$ 225,000	$ 225,000	$ 450,000
Kewanee, IL	$ 16,300	$ 24,700	$ 41,000
Rhinecliff, NY	$ 162,500	$ 162,500	$ 325,000
Berkley, CA	$	$ 68,600	$ 68,600
Gilman, IL	$	$ 67,000	$ 67,000

STATION	AMTRAK FUNDING	OTHER	TOTAL
Elizabethtown, PA	$ 11,311	$ 18,239	$ 29,550
Los Angeles, CA	$	$ 178,000	$ 178,000
Oxnard, CA	$	$3,000,000	$ 3,000,000
Truckee, CA	$	$ 825,000	$ 825,000
Hamlet, NC	$ 9,000	$ 9,000	$ 18,000
Macomb, IL	$ 5,500	$ 5,500	$ 11,000
Quincy, IL	$ 45,000	$ 62,000	$ 107,000
W. Quincy, MO	$ 6,500	$ 6,500	$ 13,000
Bloomington, IL	$ 6,000	$ 6,000	$ 12,000
Lincoln, IL	$ 9,000	$ 9,000	$ 18,000
Homewood, IL	$ 14,000	$ 14,000	$ 28,000
Rantoul, IL	$ 14,000	$ 34,000	$ 48,000
Galesburg, IL	$ 4,000	$ 4,000	$ 8,000
Champaign, IL	$ 13,000	$ 24,000	$ 37,000
Plano, IL	$ 3,500	$ 3,500	$ 7,000
Mendota, IL	$ 4,500	$ 4,500	$ 9,000
Cairo, IL	$ 4,000	$ 4,000	$ 8,000
Princeton, IL	$ 10,000	$ 10,000	$ 20,000
Alton, IL	$ 13,500	$ 13,500	$ 27,000
Effingham, IL	$ 8,500	$ 8,500	$ 17,000
Mattoon, IL	$ 8,500	$ 8,500	$ 17,000
Total	$ 1,743,611	$8,795,539	$10,539,150

During 1985, Amtrak and state/local agencies made station improvements or constructed new stations at Kansas City, Missouri; Galesburg, Illinois; and Santa Ana, Davis, and Fullerton, California. Total Amtrak funding was $1.225 million and state/local funding was $13.76 million; $12.0 million of which was a State of California new station project at Santa Ana. Prior years' funding follows the same trend, with Amtrak's available matching funds being about two million dollars each year.

SENATOR ANDREWS: Under Gramm-Rudman-Hollings, how much is Amtrak spending for capital purposes in fiscal year 1986? Is this all funded from revenue enhancement activities?

ANSWER: In fiscal year 1986, Amtrak plans to commit $47.7 million to new capital projects. All of the $47.7 million will be funded from internally generated sources such as revenue enhancement activities and the sale of assets.

SENATOR ANDREWS: Under Gramm-Rudman-Hollings, what did not get done in fiscal year 1986 that Amtrak otherwise would have pursued in the capital improvement area?

ANSWER: Due to the shortage of capital in FY86, Amtrak had to defer projects totaling over $30 million. These capital projects fell into three categories:

- Investments in track and facilities to improve efficiency and productivity.
- Investments aimed at increasing the revenue generating potential of Amtrak's assets.
- Investments of a strictly economic nature that would reduce Amtrak's operating expenses. In fact, due to the current shortage of capital, Amtrak will not even consider funding projects of this type unless they are projected to yield an internal rate of return in excess of 20 percent.

QUESTIONS SUBMITTED BY SENATOR CHILES

SENATOR CHILES: Mr. Claytor, I understand that Amtrak and the Florida Department of Transportation have been cooperating in a joint program to install signals at selected rail crossings. This program is clearly in the public interest in increasing safety and preventing accidents. It also benefits Amtrak by allowing a safe increase in train speed.

I would hope that this beneficial program can continue, even on a reduced basis. What plans does Amtrak have in its budget for continuing this effort?

ANSWER: Amtrak is prepared to commit $75,000 to $150,000 to the joint grade crossing program in FY87 with the Florida Department of Transportation. Given Amtrak's limited capital funds, however, each project will be carefully evaluated on its own merits. The primary criteria to Amtrak will be higher train speeds in order to reduce scheduled running times over the respective routes.

SENATOR CHILES: What are the total costs of operation of each of the reservation offices and how many employees are at each office?

ANSWER: The following table indicates the various elements of overhead costs for each Reservation Sales Office.

	Carle Place	Fort Washington	Jacksonville	Chicago	Los Angeles
Labor	3,535,000	10,758,900	4,716,000	7,791,100	9,794,400
Communications	1,806,980	4,056,285	2,019,838	2,368,509	4,836,524
Office Rent	498,156	--	156,011	792,046	514,104
Rent Cost Per Square Foot	$15.25	—	$14.00	$29.25	$26.25
Utilities	93,017	116,748	25,157	134,853	71,143
Office Equipment	9,475	8,650	2,669	10,512	11,032
Other	90,452	151,873	38,053	69,286	91,396
Total Cost	6,033,080	15,092,456	6,957,728	11,166,306	15,318,599
Employees (eff. 5/1/86) (exempt and (nonexempt)	149	360	149	266	333
Total Cost Per Employee	$40,490	$41,923	$46,696	$41,979	$46,001

SENATOR CHILES: If the Jacksonville Office is closed, Amtrak will incur added costs for a variety of activities. Please indicate estimates for these added costs. Include your assumptions about the number of Jacksonville employees who will transfer to other offices. Show such costs as:

(1) Cost of breaking the existing Jacksonville lease;
(2) Moving expenses for employees transferring to other offices;
(3) Costs for training courses for newly hired employees;
(4) Severance Pay;
(5) Cost of disposing of duplicative equipment;
(6) Increased telephone costs because of move to a northern city; and
(7) Increased office space and equipment costs, for new and transferred employees.

ANSWER: With respect to the number of employees who will transfer, it is our plan to transfer the work from the Carle Place facility earlier than Jacksonville. The Carle Place facility has virtually the exact number of employees as Jacksonville. Employee response at Carle Place indicates that only 20 individuals will choose to transfer. We assume a similar number for Jacksonville. The relocation cost for transferring roughly 20 employees will be approximately $370,000.

The lease for Jacksonville will terminate on September 30, 1986. This assumption is built into our plan to close the facility. Consequently, there will be no cost associated with breaking the lease.

With respect to training newly hired employees, because Amtrak has continual turnover in its reservation facilities and because employees from other areas of the company transfer into reservation facilities throughout the year, Amtrak maintains a training facility in each Reservation Sales Office. Training is performed by employees who are used for this and other training missions; and in the event of large classes, existing supervisory personnel also serve as trainers. Consequently, costs associated with training new employees is negligible.

The management employees who choose not to transfer are provided a severance package which varies depending on length of service. Until we know which specific employees choose not to transfer this item cannot be accurately calculated. Union employees who choose not to transfer are not entitled to severance pay.

With respect to equipment, certain equipment such as communications and computer equipment will be needed at the remaining facilities or other points in the Amtrak system. Equipment not immediately needed for use at other points will be stored at an existing storage facility for use in other areas of the Company. This equipment can be shipped by train and therefore the transfer cost is minimal.

With respect to space for the transfer of functions, space is available in Fort Washington, Chicago, and Los Angeles facilities. Furniture and other equipment will be transferred to these facilities as explained earlier. Costs to reconfigure the remaining facilities will be less than $60,000.

SENATOR CHILES: Indicate how these costs compare to the proposed savings from the Jacksonville closing. Show the full assumptions on which the estimated costs savings are based.

Offsetting the costs of any office is the productivity of any office. I understand that the Jacksonville office is the leading office in productivity.

ANSWER: In contrast, we anticipate that by virtue of economies of scale associated by massing resources together, and eliminating duplicate facilities and functions, Amtrak could realize a savings of about $4 million for closing both the Carle Place and Jacksonville offices. Closing the Jacksonville facility alone would save about $1.9 million. The following are categories of cost savings.

	(Thousand)
Staff reductions due to scheduling efficiencies and elimination of duplicate staff	$2,900
Reduce rental charges for excess communications equipment	590
Savings in property and facility rentals	451
Savings in overhead costs (office supplies, building maintenance, security, utilities, etc.)	120
	$4,061

SENATOR CHILES: Please rank the reservations offices in the various categories of productivity used by Amtrak to manage this program.

ANSWER: With respect to productivity, the following table offers the number of calls handled and the rate of calls handled per facility. However, it must be considered, given today's communication technology, that on any given day calls may be routed from anywhere in the U.S. to any of the 5 facilities based on market demand. It is Amtrak's goal, regardless of the number of facilities, to maintain as uniform a service as possible throughout the system.

RSO Calls Handled

Ft. Washington	4,000,876
Los Angeles	2,768,154
Chicago	2,301,276
Carle Place	2,046,948
Jacksonville	1,598,594

Calls Handled per Man-hour

Carle Place	24.5
Ft. Washington	21.7
Jacksonville	21.1
Los Angeles	20.9
Chicago	20.6

SENATOR CHILES: If Jacksonville closes, there may be adverse effects on passengers in the south. Will it not take longer for reservation calls to be completed if the office is moved north? What impact will there be when northern offices may be closed or undermanned because of inclement weather?

ANSWER: Because Amtrak has the capability of transferring calls dynamically, we anticipate no adverse affect on our passengers in the south. The instances of facility closings or undermanning due to inclement weather are extraordinarily rare.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SENATOR SPECTER: What is highest percentage reduction in federal funding that Amtrak could withstand without major cutbacks in service?

ANSWER: Amtrak very much needs the authorized and requested grant level of $606 million. This would allow continued operation of service at about the levels operated in 1986.

A Gramm-Rudman-Hollings or other reduction from this level would not only wipe out the maintenance and minimal capital amounts planned to be funded in FY87, but would require major additional modifications to service levels.

SENATOR SPECTER: Do you believe that a system of high speed rail lines would significantly enhance the profitability and efficiency of rail transportation, especially between major cities?

ANSWER: Amtrak's Northeast Corridor operations have proved that high speed rail lines between major cities not only enhance the efficiency of rail transportation, but meet a definite public need. In the United States, Amtrak currently operates service in the Northeast at 120 miles per hour, the fastest rail passenger service in the country, and the corporation hopes to achieve slightly greater speeds as further refinements in its operations permit.

Amtrak's trains arrived on-time 83.7 percent of the time in the corridor and Metroliners performed even better, with an on-time record of 85.8 percent in FY85. Both reliability and speed have made Amtrak a dominant carrier in the markets served in the Northeast Corridor. In FY85, Amtrak carried two-thirds of the 24,500 people per day who travelled by air or rail among the Northeast Corridor cities of New York, Newark, Philadelphia, Wilmington, Baltimore and Washington. These were intercity travellers and not daily commuters. Even if you segregate those who travelled between New York and Washington only, Amtrak handled almost 3,000, or 31 percent of the 9,800 daily air/rail passengers. On the north end of the corridor; FY 1985 figures indicate a 56 percent increase in ridership over FY 1984 and a 50 percent increase in revenue on the New York to Boston segment.

The Northeast Corridor is considered a major success story for Amtrak, but much of the success must be directly attributed to the capital investment made by the Federal Government to improve and upgrade this important rail line. The same type of capital investment would be required to develop high-speed rail service between other major cities.

Amtrak has taken the position that it will support the efforts of private and public sector initiatives to develop high-speed rail service, but for budgetary reasons we cannot participate financially in the institution of such service. Amtrak's interest in the various high-speed rail proposals now being contemplated is predicated on the belief that the introduction of high-speed passenger trains to the United States on a commercial basis holds the promise of financial benefits to Amtrak as well as benefits to the public. Furthermore, the prospects are good that Amtrak can enter into profitable commercial relationships with the direct providers of high-speed passenger service whereby Amtrak could possibly provide reservations, operating and maintenance services, all on a profitable basis. At a minimum, the development of high speed service should result in greater public awareness of rail service as a viable transportation alternative, and Amtrak looks forward to the day when the United States will have world class high-speed service in addition to that which is provided in the New York-Washington corridor.

SENATOR SPECTER: In a General Accounting Office Report on Amtrak that Senator Heinz and I requested, reference was made to your efforts to develop the real estate around rail stations to bring in additional revenues. What is the status of this venture, where is it begin considered, and what other innovative ways is Amtrak studying to increase its income?

ANSWER: Amtrak is working hard to develop revenues from all of its real estate holdings, including the stations. In Philadelphia, Amtrak has been working with the Gerald D. Hines Interests/Atlantixenter! development group since last August in the pre-development phase of this project. It is anticipated that a development agreement will be executed some time this summer. This would set the stage for the immediate development of the station and the long-term development of approximately 70 acres of air rights adjacent to the station in downtown Philadelphia.

Similarly, Amtrak has been working with U.S. Equities, Inc., under a pre-development agreement for the Chicago Union Station and substantial adjacent areas. It is anticipated that this project will result in a development agreement shortly which calls for the redevelopment of the station and the construction of two high-rise office towers above the station.

In addition to these major projects, Amtrak is working on the development of a number of smaller stations which will bring revenue to the Corporation as well as provide improved services to our passengers. Those under construction or soon to be developed for adaptive reuse include:

Old Saybrook, Connecticut
Windsor, Connecticut
Windsor Locks, Connecticut
Albion, Michigan
Bristol, Pennsylvania
Bryn Mawr, Pennsylvania
Devon, Pennsylvania
Greensburg, Pennsylvania
Haverford, Pennsylvania
Overbrook, Pennsylvania
Rosemont, Pennsylvania
East Greenwich, Rhode Island
Westerly, Rhode Island

In addition to those stations, Amtrak is looking at all of its real estate holdings to see where revenue might be brought in for the development of the entire property or, in some cases, of its air rights. For example, an agreement has recently been reached with a developer for the construction of a high-rise residential condominium project above our tracks in Springfield, Massachusetts. This property is located some distance from the station along the Connecticut River. Amtrak expects that this will be the first of several projects in this immediate vicinity.

Other communities where Amtrak's actively involved in the development of its real estate holdings other than stations include:

New Haven, Connecticut
Poinciana, Florida
Chicago, Illinois
Baltimore, Maryland
Boston, Massachusetts
Battle Creek, Michigan
West Windsor Township, NJ
Providence, Rhode Island

SENATOR SPECTER: Do you anticipate any service cuts within my home state of Pennsylvania in FY 87 or FY 86?

ANSWER: Amtrak does not contemplate making any significant reduction in service during the remainder of this fiscal year in order to operate within the $93 million funding cut sustained in FY86. Amtrak was able to minimize the impact of these funding reductions by taking actions early in the year, long before the continuing resolution was finally passed into law. One-third of the $93 million funding reduction was achieved through the implementation of internal operating efficiencies, and another one-third by eliminating Amtrak's publicly funded capital budget for FY86. Only after all other possible steps were taken, did Amtrak reduce service on January 12 of this year. The service changes consisted of frequency reductions on 10 routes across the country, including routes in Pennsylvania, where Amtrak discontinued or restructured those trains with higher costs per passenger mile.

Amtrak is requesting an appropriation of the authorized funding level for fiscal year 1987 of $606 million. With some frequency modifications, particularly in those seasons when traffic is traditionally light, this should enable the corporation to operate basically the same nationwide system that is being operated today, and fund a very modest capital program. Amtrak would also expect to resume certain scheduled track and equipment maintenance programs which had to be deferred or slowed in FY86, but which have turned out to be costly and could not be continued without serious detriment to the quality of service.

Last year Amtrak indicated that it could, with considerable difficulty, survive a 10 percent funding cut from the 1985 appropriation of $684 million, without major disruption to service. Amtrak is much more vulnerable this year because the cut made is significantly more than this, and cannot, in good conscience, defer some important maintenance functions for another year. Furthermore, an approximately $600 million appropriation in 1987 dollars would represent a further reduction below the FY86 level of some $20-25 million as a result of inflation (which the corporation assumes for this purpose would be applied to both revenue and expenses). Any further reductions in FY87 appropriations would almost inevitably result in more drastic service reductions, which in turn would adversely affect both our short and long-term volume of business and revenues. Amtrak cannot at this time say where such frequency modifications would be made; and would plan to do as it did in 1986, by first cutting back on those trains having at that time worse than average losses per passenger mile.

DEPARTMENT OF TRANSPORTATION

Federal Railroad Administration

STATEMENT OF JOHN H. RILEY, ADMINISTRATOR

ACCOMPANIED BY:
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- **WILLIAM E. LOFTUS, EXECUTIVE DIRECTOR**
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OPENING REMARKS

Senator D'Amato. Our next witness, the infamous—no, the famous John Riley, the Federal Railroad Administrator.

Mr. Riley. Thank you, Mr. Chairman.

Senator D'Amato. John, good to see you. You may, of course, submit your entire statement for the record and make whatever highlights that you think are appropriate.

Mr. Riley. I have a rather lengthy statement and justification which I will not reiterate here. I will submit it for the record.

Let me, even before making introductions on the panel, go directly to what is obviously the pressing issue. We are reviewing the agreement that Amtrak has reached with the Long Island Railroad. In fact, it is not even clear that we will have to release our liens. The way the agreement is drafted, there is a long-term leasehold and it may be possible to arrange to subjugate that to our mortgage without having to go through a release of lien. I am not sure of that yet, but we expect to finish the review of the documents by the end of this week so we will be in a position to advise Amtrak shortly.

On the second most critical issue, Lionel Trains moved its manufacturing plant back from Mexico to the United States last year and I also have a rather large collection of Lionel model trains. This Christmas while Graham Claytor and I were at his home watching his model trains, which, incidentally, Graham has one of the larger collections in the world. His are not Lionel trains. They are each about that long [indicating 2 feet] and they do not run on electricity. They run on actual live steam. He stokes the engine, fills them up with water, and loads them up with alcohol or butane gas. They are scaled down steam-run locomotives.

Unfortunately, while I was there, there was a minor switch misalignment problem and two of them struck one another at a fairly high rate of speed. I was forced to write a citation which we are now in court on. [Laughter.]

INTRODUCTION OF ASSOCIATES

With that behind us, I am not going to go back over my justification, Senator, but I do want to spend a minute reviewing last year because it was a very unusual year for this small agency, historic by a lot of standards. First, I would like to introduce some of the people with me.

To my right, Chris Rooney, my Deputy; to his right, Tom Ferrara from our Office of Policy; to my left, Lou Thompson, and Lou has been head of our Amtrak and passenger operations; and to his left, Joe Walsh who heads our Safety Program; and to the far left of the table, Mike Haley our Deputy Chief Counsel.

ALASKA RAILROAD

Over the course of the past year many things happened. It started on January 7 in Fairbanks, AK. In fact, a surprisingly warm Fairbanks, AK. I discovered, to my surprise, that Fairbanks is substantially warmer than my State of Minnesota or the chairman's State of North Dakota. We signed an agreement with the Alaskans that transferred the Alaska Railroad to the State of Alaska. That followed up the conclusion of our transfer of the Delaware and Hudson to private ownership, which effectively privatized two of the three federally owned freight railroads.

CONRAIL

One month and one day later, Secretary Dole announced her recommendation that Conrail be sold to the Norfolk Southern. Obviously we did a considerable amount of work on that, both before and after the recommendation.

NORTHEAST CORRIDOR

In succeeding months, two other substantive actions took place that are worthy of notice. First, we completed—and I give Lou Thompson enormous personal credit for this—after 10 years of effort, the rebuilding of the Northeast corridor and the Northeast Corridor Improvement Project and transferred completion of the remaining functions to Amtrak.

UNION STATION

Finally, Union Station was at last established as an ongoing rehabilitation project. We set up a public/private company to handle the rehabilitation, hired a president for the company, selected a developer and architect, and began the short-term repairs necessary to allow that project to commence. And we do expect Union Station to be reopened in a fashion consistent with Burnham's original designs in early 1888, and we are really looking forward to that.

SAFETY

But beyond these structural activities, the satisfaction of this year and the accomplishment came on the safety side. This has really been a remarkable year for safety, by any measure, by any standard. This was the safest year in the history of the railroad industry. We have set some standards this year that are really going to be a challenge for all of us in the future.

To review some of those numbers, because they tell the story, last year train accidents were down 12.2 percent from the previous year and down 70 percent from the last year prior to the enaction of the Staggers Act. I think that is the most important figure, train accidents, because it is the broadest indicator.

But on the others: Grade crossing accidents, down 12.2 percent, down 48.9 percent from pre-Staggers; employee fatalities, always an important number, down 22 percent, down 62.3 percent from the last pre-Staggers years; workplace injuries, down 4.4 percent, down 31 percent from the last pre-Staggers year; and finally, the most remarkable number, hazardous material incidents and spills, down 57 percent to the lowest number we have recorded since the agency started keeping records.

Now, there are a lot of reasons for this. I would like to be able to tell you that FRA did it all with our fine inspection staff, but in truth a lot of people can claim credit for that. It goes to industry, it goes to labor, it certainly goes, to a certain degree, to us, but more than anything else, the Staggers Act which enabled the railroad industry to have some cash flow and raise its capital investment levels has played a greater factor in the improvement of safety numbers than anything else.

SAFETY RULEMAKINGS

Now, behind these figures there are some specific actions that were taken. We undertook six major rulemakings last year: overheated wheels, rear end markers, intermediate power brake tests, two rules that reduced regulatory reporting requirements for short lines and small railroads, and finally, the most important issue that I will have dealt with during my tenure, ending the 12-year debate over alcohol and drug use in the railroad workplace by issuing a rule regulating alcohol and drug use in the railroad workplace.

In addition to that, recognizing that a rule cannot do the whole thing—I mean a rule can detect and deter and get a problem employee out of the workplace—but a rule cannot create a peer environment conducive to early detection and it cannot create a place for an employee to go when he has got a problem. We have worked with labor and management to establish a national program called Operation Red Block which is a voluntary program to back up the provisions of the Federal rule.

SEPTA ASSESSMENT

Finally, we completed assessments on SEPTA, on the Burlington Northern, on Amtrak, and we issued what we believe to be a major report on grade crossing safety, pointing out where we think Federal, State, and private policies should go in the future.

GOALS FOR THE YEAR AHEAD

In the year ahead, FRA is going to target its safety efforts on two goals. The first and most important: communications. It has been my belief for a long time that communications is the single area in the railroad industry where the most improvement in safety numbers could be generated. We are going to take a broad-based look at how the railroad industry communicates in both a macro- and a micro-sense and consider issues ranging from radio equipping on trains to the use of satellite train control and satellite technologies.

Finally, we are going to take a look at the locomotive cab as a place to live and a place to work and see what can be done to make it a safer place and perhaps a more survivable place.

AMTRAK FUNDING

On the other issue before us this morning, I know it is no surprise to the committee that the economic realities that led the Department of Transportation to recommend no funding for Amtrak in last year's budget have not changed, and we have again requested no funding for Amtrak in fiscal year 1987, despite significant improvements in its operating efficiency over the past 4 years.

And I have to say, Graham Claytor is without peer in this industry as a first-rate operating man. He has done an exceptional job.

Senator ANDREWS [presiding]. You ought to listen to him more.

Mr. RILEY. Well, I think he is a first-rate operating man.

Senator ANDREWS. I just want you to know you ought to listen to him a little bit more.

Mr. RILEY. On operations we do listen to him.

But even with all of that improvement, Amtrak continues to lose about $600 million annually, with no end in sight. These numbers actually understate Government's long-term exposure because the $600 million figure is comprised almost entirely of operating losses. Amtrak faces significant capital investment needs over the next few years, needs which the Federal Government will also likely be asked to finance.

At a time when we must work together to meet the essential deficit reduction targets in Gramm-Rudman-Hollings, the Federal Government cannot commit more than $3 billion to subsidize Amtrak's operating losses over the 5-year budget cycle.

Now, termination of Amtrak subsidies does not in and of itself necessarily mean an end to Amtrak service, but it is essential in my view for everybody interested in continuing Amtrak service to be realistic about the choices and the need to take the initiative should they wish to maintain service in the absence of Federal financial support.

Amtrak cannot run without subsidy. I think Graham and I would both agree on that. While changes in work rules and operating procedures could enable Amtrak's losses to be reduced, subsidy needs are going to remain substantial, even under the best of circumstances.

I said a year ago that FRA would devote its full energies, as well as its analytical and intellectual resources to working with States and localities to develop a transition plan should they wish to step into the Federal Government's role as subsidizer. That offer still stands and we are sincere in our offer of logistical assistance, should States or localities wish to take that initiative.

We are also prepared to work with Amtrak labor and management to explore possible cost reduction measures to help enhance the company's viability. But should no party step forward to replace the Federal Government as a subsidizer of Amtrak services, the corporation would in all likelihood declare bankruptcy and a trustee would be appointed to manage its affairs.

As in any other bankruptcy proceeding, the trustee could be expected to seek preservation of service in areas where any private party or regional compact offered to take responsibility for Amtrak operations.

In other cases the assets would be applied to the obligations of the estate.

One fact is clear: That in the face of annual deficits approaching $200 billion, the Federal Government cannot continue to invest more than half a billion dollars annually in Amtrak operating subsidies.

Mr. Chairman, that is a brief summation of where we are on the variety of issues to come before us and we would be happy to entertain any questions that the panel may have.

PREPARED STATEMENT

Senator ANDREWS. Thank you, Mr. Riley. Your completed statement will be made part of the record and we will proceed with the questions.

[The statement follows:]

STATEMENT OF JOHN H. RILEY

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear before you today to present the Federal Railroad Administration's (FRA) budget request for FY 1987. FRA's request for $50.5 million and 660 positions is most austere in light of the Balanced Budget and Emergency Deficit Control Act of 1985, or the Gramm-Rudman-Hollings Act as it is popularly known.

As you know, Mr. Chairman, the President is committed to reducing the deficit in compliance with the Act but still facilitating a safe and efficient national transportation system. As stated in his FY 1987 Budget to Congress, an integrated and efficient national, State and local transportation network requires the combined and cooperative efforts of all the parties concerned, the Federal, State, and local governments and the private sector. Each level of government should concentrate its efforts on the transportation facilities and services for which it is appropriately responsible with the Federal government concentrating on the interstate transportation system.

In terms of resource allocation, safety is a key focus of FRA activities. However, FRA's role is also promotion of an efficient and competitive rail transportation environment by acting as a catalyst in railroad technology development and innovation, and encouraging State and local governments and rail industry's labor and management to act together for the common good and public benefit. FRA's mission further requires us to study proposed regulatory changes and the impact of railroad developments on the transportation industry, monitor rail traffic, provide economic forecasting and study the financial condition of individual railroads and the industry as a whole. Since we met last year, I am proud to say that FRA has gone through a very intense and successful year in achieving these goals. Before I discuss FRA's FY 1987 budget, I want to share some of our recent achievements as well as our future plans with the Subcommittee.

RAILROAD SAFETY

FRA's safety staff, Executive Director and lawyers made outstanding progress in all aspects of our safety program: rulemaking and enforcement, Operation Lifesaver, and civil penalty assessments and collections, and labor-management activities.

Assessments based on preliminary data for 1985 indicate that overall train accidents decreased 12.2 percent in 1985 compared to 1984, from 3,712 to 3,260. When normalized by train miles, which decreased by 3.7 percent, train accidents decreased by 7.9 percent. Total rail related fatalities decreased by 217, from 1,247 in 1984 to 1,030 in 1985, a decrease of 17.4 percent. This exceptional progress in safety performance has been the trend for the past five years thanks to the improving financial health of the industry and combined efforts of labor, management and Federal and State governments in safety compliance and enforcement.

You may recall that in 1984, trespasser fatalities continued to increase and rail-highway crossing fatalities showed an increase for the first time in 6 years. To counteract these developments, FRA's field support of Operation Lifesaver, a public education program which focuses on grade crossing safety, was emphasized. FRA inspectors participated in over 1,000 Operation Lifesaver presentations in 1985. As part of these Operation Lifesaver presentations, FRA personnel also informed school and civic group audiences about the dangers of trespassing on railroad property. We believe that these presentations played a major role in the 1985 decrease in rail-highway crossing and trespasser fatalities.

Preliminary data further indicate that 1985 rail-highway crossing accidents, fatalities, and injuries decreased when compared to 1984. The number of crossing accidents decreased 5.3 percent from 7,281 to 6,898, a decrease of 383; the number of fatalities decreased 11.6 percent from 649 to 574, a decrease of 75; and the number of injuries decreased 8.2 percent from 2,910 to 2,672, a decrease of 238.

Despite these ongoing efforts and the decrease in 1985, rail-highway crossing and trespasser fatalities continue to comprise over 90 percent of all railroad related fatalities. FRA's continuing concern about public safety at rail-highway grade crossings, therefore, prompted us to again hold public hearings in 1985 to explore all feasible alternatives to improve this situation. We published a report, in July 1985, Rail-Highway Crossing Safety Report, which documents Department and FRA policy as well as current and proposed initiatives. On July 16, 1985, Secretary Dole announced a new initiative, a series of demonstration projects that utilize the low cost corridor approach to rail-highway crossing safety. FRA has worked with FHWA in establishing projects in several disparate locations from Florida to Alaska. And FRA will continue to emphasize Operation Lifesaver with FRA inspectors making even more presentations in 1986.

On the enforcement side, FRA has continued its intensive hiring efforts to maintain the level of safety inspectors at the authorized level of 325 in track, signal, equipment, hazardous materials and operating practices disciplines. FRA is continuing its effective coordination of Federal and State inspection activities and supplementing ongoing inspections with at least three comprehensive systemwide assessments of selected railroads and 10 to 20 more specific assessments each year.

In some situations, the best method for obtaining compliance with rail safety laws is assessment of civil penalties. In 1985, FRA made significant improvements in the civil penalty process. To facilitate monitoring, reporting, evaluation, and planning every facet of the process has been computerized--from receipt of the inspector's report recommending a civil penalty to assessment of the penalty and collection of the penalty. And to manage the large caseload, with the cooperation of the railroads, we have successfully implemented an annual cycle whereby final action is taken on each violation report by the end of the year following the one in which it was received. These measures helped FRA to liquidate a large backlog of older claims and to impose a comprehensive management scheme on the process. The result is that FRA is more current in its handling of civil penalty cases than it ever has been.

In nearly all cases, initial assessments of civil penalty are resolved through negotiations with carriers and shippers leading to a compromise, as authorized by the rail safety statutes. The negotiation process provides an opportunity for a valuable exchange of views on safety issues and often produces specific commitments to improve compliance. In FY 1985, FRA collected $6,142,550 in civil penalties, more than it has collected in any year since 1980 and the third highest total in its history.

FRA is continuing its active safety regulatory program to ensure that it keeps pace with technological development and operational change--indeed, after an examination of the program during the past year, the DOT Inspector General gave it high marks.

In 1985, FRA published a final rule addressing the problem of alcohol and drug use in railroad operations. This carefully developed rule was the culmination of an extensive investigation and rulemaking proceeding that began in June of 1983. The rule will aid in the detection of alcohol and drug use among railroad operating employees, and more importantly, save lives by deterring these employees from operating trains while impaired by alcohol and/or drugs. This rule was challenged -- and with the recent action of the Supreme Court we are now able to implement it. Following issuance of the rule, FRA held five seminars across the Nation to introduce the rule and accompanying field manual, attended by 2,000 interested parties including union officers, railroad representatives and FRA Safety inspectors.

In addition to the alcohol and drug rule, FRA has been actively engaged in other important safety regulatory efforts in 1985. These efforts resulted in:

- a final rule, making a technical but significant change in the Freight Car Safety Standards to aid in the identification and removal of thermally abused wheels;

- two final rules designed to reduce the regulatory burden on small railroads; and

- a report on rail-highway grade crossing safety following a special safety inquiry regarding possible future courses of action to enhance public safety at rail-highway crossings.

FRA published two Notices of Proposed Rulemaking on the implications of operating freight trains without cabooses. Recent collective bargaining agreements permit railroads to do without cabooses on a large percentage of freight trains. One of these Notices would amend the rear end marker and blue signal rules to (i) clarify the equipping and inspection provisions, (ii) revise the inspection requirement to permit either a visual observation or a radio telemetry verification, (iii) permit expansion of the categories of employees authorized to conduct the visual observation, and (iv) permit the use of a new procedure to protect those making this inspection. The other Notice of Proposed Rulemaking would permit the use of a telemetry device to determine the application and release of the brakes on the rear car of a train during the intermediate airbrake test. We anticipate issuing final rules in both these dockets in the near future.

In other current regulatory proceedings, FRA is examining (i) the safety implications of permitting certain intermodal tanks to carry hazardous materials in Trailer on Flatcar/Container on Flat Car service, and (ii) the appropriate criteria for determining when freight car wheels are defective as a result of excessive heat. In addition, FRA has also prioritized three key safety issues: hazardous materials car placement in a train consist, crew safety in locomotives and radio communications.

In 1985, FRA saw a series of very significant court decisions in defending the Federal rail safety program. With the recent action of the Supreme Court we are now able to implement the alcohol and drug rule. In a suit brought by rail labor organizations challenging FRA's exercise of prosecutorial discretion, the Ninth Circuit Court determined that rail employees and their organizations lack standing to sue FRA to compel it to enforce the rail safety laws in the manner they deem proper. In another serious challenge to the integrity of the Federal safety enforcement program, FRA prevailed in four nearly identical cases related to job losses brought by the Brotherhood of Railway Carmen in various locations across the country.

Plaintiffs charged that, as a result of the furlough of carmen, train inspections were now being done by trainmen, whom they alleged to be unqualified. None of the courts found an emergency situation or even serious safety issues to exist, and those that ruled on the issue found that FRA was properly enforcing the law. The courts unanimously ruled that plaintiffs lacked standing to press their non-emergency claims. Two similar cases were abandoned by the plaintiffs after the initial pleadings were filed. FRA also prevailed in district court in a suit brought by rail labor challenging FRA's intepretation of the sleeping quarters provision of the Hours of Service Act.

FRA's current litigation caseload which will continue into the future includes: rail labor's appeal in the alcohol and drug case, challenging the testing provisions; rail labor's appeal of the District Court decision in the sleeping quarters case; a similar sleeping quarters case at the district court level in another jurisdiction; and a railroad's suit challenging FRA's finding that the railroad "knowingly" violated provisions of the Hazardous Materials Transportation Act.

RESEARCH AND DEVELOPMENT

In 1985, following an internal management review determination we moved our research and development activities under the executive direction of the Associate Administrator for Safety. As a result, we propose in our FY 1987 budget to merge the Railroad Safety and Railroad Research and Development appropriations into a single account. This will permit a closer linkage, from concept to implementation, between safety research and the rulemaking process. Some of our major R&D efforts during the past year included research into: the safety of equipment used to transport hazardous materials; the potential problems associated with the increasing use of intermodal transport for hazardous materials; the equipment required for the safe operation of cabooseless trains; and improved safety in the locomotive cab environment.

FRA also has been monitoring advances in the use of new microprocessor- and communications- based train control systems in the railroad industry. Several proposals are being developed by the industry in the hopes of establishing even greater opportunities for improved safety in train movements. In 1986, FRA will continue its review of this important development, as well as study incremental improvements to conventional radio voice communication for train control.

CONRAIL

Mr. Chairman, this past year has been another year of very intense activity in the Administration's efforts to sell Conrail. Shortly before we met with this Committee last year, Secretary Dole had announced that she had chosen the Norfolk Southern to purchase Conrail. During the past year we have testified on numerous occasions before six Congressional Committees on all aspects of the Conrail sale, met with the Governors, or their representatives, of virtually every state served by Conrail, and with many of Conrail's shippers to discuss the implications of the sale.

The Justice Department has reviewed in depth the competitive aspects of the sale and provided guidance to us and to Norfolk Southern as to track divestitures and other market access conditions that must be met to prevent a lessening of competition. The divestiture agreements recently finalized by the Norfolk Southern Corporation with the Pittsburgh and Lake Erie Railroad and Guilford Transportation Industries will not only preserve the current level of competition to meet the Justice Department requirements, but will have the decidedly procompetitive effect in that they break the monopoly that Conrail has enjoyed in providing single line service between the Northeastern and the Midwestern regions of our country. Assistant Attorney General Ginsburg of the Antitrust Division has given preliminary approval of the sale saying that the Norfolk Southern divestiture plan "appears to create long-term viable and competitive service for affected shippers." We are anticipating that Justice will complete its verification review of these agreements this spring and that the Congress can conclude its review and oversight process without delay, in fairness to all the parties involved.

The Department of the Treasury submitted a revenue estimation of Conrail's sale to the Norfolk Southern Corporation. They estimated that under current law, on a present value basis, the Treasury might forego receipts of about $125 million in tax revenues as a consequence of Norfolk Southern's ability to consolidate its tax returns with those of Conrail. This results because Norfolk Southern currently pays significant taxes while Conrail is likely to continue producing net operating losses for tax purposes well into the future.

On February 4, 1986, the Senate passed legislation authorizing the sale of Conrail to Norfolk Southern. The Department considers the Senate's approval of the sale to be a major step forward particularly since the sale would produce in excess of $1.2 billion current receipts at a time when we are working so hard to reduce the Federal deficit.

We expect to complete the sale of Conrail in 1986. Post Conrail activities would include a broad range of duties and responsibilities to assure consistency with all covenants of the sale agreement and legislative mandates. Specific activities would focus on monthly monitoring of Conrail's operating and financial performance, periodic assessment of its cash accounts including cash flow adequacy and quality; review of its track and equipment maintenance expenses, capital improvement program compliance; asset dispositions and acquisitions; dividend policy; requests for waiver, divestiture and diversion trend assessments; service continuation and any other requirements Congress or the Department may ultimately impose.

RAILROAD DEREGULATION

FRA has participated in a number of key proceedings at the Interstate Commerce Commission (ICC), including: rulemakings concerning the adoption of the historic agreements between railroads and shippers resolving concerns with the implementation of regulatory standards in the areas of joint rates and competitive access; and the criteria for judging market dominance. FRA also provided the Departmental witness on the potential competitive impacts of the proposed merger between the Southern Pacific and Santa Fe Railroads. The Department's analysis and recommendations in that proceeding provided the groundwork for a subsequent agreement reached by the merging railroads to remedy any likely reductions in competition as a result of the transaction. The agreement, which closely follows our recommended solution, was a negotiated private sector arrangement that permits another competitor to solicit traffic from the shippers involved. This arrangement, if approved by the ICC, is a positive example of how parties to a merger transaction can work out competitive concerns within the scope of an ongoing merger proceeding.

In the coming year, FRA will continue to monitor developments under the Staggers Act and conduct analyses to support development of FRA and DOT positions on issues related to rail regulation, including regulatory proceedings as well as legislative initiatives. Projects will range from evaluations of any proposed mergers between railroads, or between railroads and carriers of other modes as they may arise; economic research and projections of the effects of actual and proposed regulatory changes on shippers and the railroad transportation initiatives such as container trains, the use of longer truck combinations on the highways, and increasing rail-barge or rail-truck cooperation and coordination. During FY 1987 priorities will again be placed on legislative comment, including scrutinizing legislative proposals for amending the Staggers Act or supplementing the Act altogether by augmenting the anti-trust laws. Sunset of the ICC will also require substantial effort to effect the transfer to DOT of a major portion of the remaining ICC functions.

RAILROAD RESTRUCTURING

In the past year the Milwaukee Railroad Reorganization Court approved the Soo Line's purchase application. The FRA challenged the Soo Line's original settlement proposal, which would have permitted cash payments to junior creditors ahead of FRA claims. As a result of vigorous defense of the government's claims and FRA negotiations with Soo, an agreement was reached accelerating repayment of debt obligations to the United States on terms and conditions favorable to the government. Detailed financial analyses and valuations were conducted for the CNW/Milwaukee and Soo/Milwaukee potential acquisition agreements as a basis to negotiate terms of repayment of the Milwaukee debt owed to the United States. Other restructuring activities in connection with the Santa Fe-Southern Pacific merger case also included extensive *pro forma* analyses of applicants and other affected railroads.

UNION STATION

During the past year, the Department signed a development agreement with Union Station Venture, Ltd., designating it as the station's developer. The Union Station Redevelopment Corporation (USRC) signed a sublease of Union Station with the developer for an initial term of 29 years with 5 optional renewal periods of 14 years each. The developer has undertaken the obligation to operate and maintain the station and a sinking fund has been established to assure that future replacement of capital items is funded. This will take Union Station off of the Federal budget sometime in the foreseeable future after the facility becomes operational.

Other progress on the facility includes:

- The District of Columbia Department of Public Works is making good progress on construction of the parking garage which is scheduled for completion in the fall of 1986.
- USRC awarded a demolition contract to clear the way for the construction contract we plan to award this spring. The contractor has removed construction obscuring historically and architecturally valuable features of the building and excavated the foundation for a cinema complex on the lower level.
- Final design for rehabilitation and renovation of Union Station by USRC and for improvements to be made by the developer is to be completed by March 31, 1986.
- We expect USRC to award the main construction contract for rehabilitation and renovation of Union Station in May of this year. (We anticipate that bidders will have the month of April to prepare and submit their bids.)

NORTHEAST CORRIDOR IMPROVEMENT PROJECT

I am happy to report that we achieved a major milestone in NECIP. On September 30, 1985 FRA transferred to Amtrak responsibility for completing the remaining right-of-way improvements under the $2.2 billion Northeast Corridor Improvement Project (NECIP). Under FRA's management, $1.9 billion of the total appropriation was expended. This work has resulted in safer, more dependable and faster corridor service than at any time in the past. Ridership in 1985 was up over 4 percent from 1984 levels. Between 1976, the year legislation authorizing the Project became law, and 1985, ridership increased by 15 percent. Northeast Corridor traffic is currently 54 percent of total Amtrak ridership.

Track work completed before the transfer included the installation of 410 track miles of concrete ties, 735,000 wood ties and 535 track miles of continuous welded rail, undercutting of 494 track miles, cleaning of 271 miles of shoulder ballast, surfacing of 634 miles of track for high-speed operations, extensive ditching to improve drainage, realigning 22 curves and reconfigurating of 30 interlockings. Eight bridges were replaced, including two that open for marine traffic, while over 150 were rehabilitated/repaired. The notorious B&P Tunnel in Baltimore, opened in 1873, was completely restored. No trains have been delayed at the tunnel since its reopening in the summer of 1984. Fencing was installed at critical locations to limit pedestrian access to the right-of-way. All highway at-grade crossings between New York and Washington were eliminated. A few remain north of New York. Eight of thirteen station projects were completed. (Of the five that remain, four are being built under cooperative agreements among FRA and state or local agencies.) Four new maintenance-of-way bases at strategic locations along the Corridor now dispatch crews to maintain the right-of-way. The electrification, communications and signaling systems have all undergone significant upgrading. Equipment service facilities at Boston, New York and Washington, begun prior to the transfer, will be completed by Amtrak.

During 1986 FRA will:

- Continue the rehabilitation of NEC railroad bridges. Within the State of Connecticut, design and construction work for five bridges is being funded under an agreement between FRA and the State. The bridges are in territory not owned by Amtrak but used by Amtrak trains.

- Complete and dedicate a new station at Providence, Rhode Island. The station, located on a new alignment, is an integral part of the redevelopment of downtown Providence.

AMTRAK

The economic realities that led the Department of Transportation to recommend no funding for Amtrak in last year's budget have not changed, and we request no funding for Amtrak in fiscal year 1987.

Despite significant improvements in its operating efficiency over the past four years, Amtrak continues to lose more than $600 million annually, with no end in sight. These numbers actually understate government's long-term exposure, since the $600 million figure is comprised almost entirely of operating losses. Amtrak faces significant capital investment needs over the next few years, needs which the federal government would also be asked to finance. At a time when we must work together to meet the essential deficit reduction targets in Gramm-Rudman-Hollings, the federal government simply cannot commit more than $3 billion to subsidize Amtrak's operating losses over the next five year budget cycle.

Termination of Amtrak subsidies does not in and of itself mean an end to Amtrak service. It is essential, however, for those interested in continuing Amtrak service to be realistic about the choices, and their need to take the initiative should they wish to maintain service in the absence of federal financial support. Amtrak cannot be run without subsidy. While changes in work rules and operating procedures could enable Amtrak's losses to be reduced, subsidy needs would remain substantial even under the best of circumstances. I said a year ago that FRA would devote its full energies, as well as its analytical and intellectual resources, to working with states, localities, regional or private groups to develop a transition plan should they wish to step into the federal government's role as subsidizer. That offer still stands, and we are sincere in our offer of logistical assistance should any group wish to take that initiative.

Should no party step forward to replace the federal government as subsidizer of Amtrak services, the corporation would, in all likelihood, declare bankruptcy, and a Trustee would be appointed to manage its affairs. As in any other bankruptcy proceeding, the Trustee could be expected to seek preservation of service in areas where any private party or regional compact offered to take responsibility for Amtrak operations. In other cases, the assets would be applied to the obligations of the estate. Without total subsidy termination and the opportunities offered through liquidation of the Amtraks assets, the Federal government would continue to pour billions of dollars more into Amtrak.

One fact is clear -- that in the face of annual deficits approaching $200 billion, the federal government cannot continue to invest more than one-half billion annually in Amtrak operating subsidies.

Mr. Chairman, I have given the Committee a look at perhaps ten of the major accomplishments of FRA which were highly visible over the past year. There are dozens more significant administrative, technical and personnel achievements that time doesn't permit me to itemize, although that does not diminish their importance. I do want to add that no organization could survive without the kind of dedicated people that persevere in their daily work behind the scenes -- some call it the trenches -- and whom others rarely see or hear.

Mr. Chairman, I will now discuss my budget request for FY 1987.

FRA's budget request for FY 1987 encompasses $50,491,000 in budget authority plus $6,875,000 of unobligated balances to support the current operating level in FY 1987, and 660 permanent positions. The detail by appropriation follows.

OFFICE OF THE ADMINISTRATOR

The request for the Office of the Administrator appropriation is $10,958,000 in budget authority plus $5,875,000 of unobligated balances transferred from other accounts. With many of FRA's Federal financial assistance programs being eliminated or phasing down, it is proposed to merge the personnel and activities previously carried under "Rail Service Assistance" with the Office of the Administrator account.

The request for the "Salaries and Expenses" activity of $11,033,000 includes $9,723,000 in budget authority and $1,310,000 of unobligated balances from the Rail Service Assistance appropriation to support 196 permanent positions, a decrease of 8 positions from the comparable FY 1986 level; these positions are associated with Amtrak activities for which we are requesting no funds in FY 1987.

The request for "Contractual Support" of $1,180,000 in budget authority is primarily computer related costs for economic analyses and forecasts, monitoring railroad traffic and the financial condition of the railroad industry, and special studies associated with mergers, deregulation and reregulation and Interstate Commerce Commission regulatory proceedings.

For FY 1987 we are requesting $4,620,000 for Washington Union Station rent and maintenance, of which $4,565,000 will be transferred from Conrail Labor Protection unobligated balances. Of this amount, $3.5 million will be available for the rental payment and $1,120,000 will be available for maintenance, operation and security services.

RAILROAD SAFETY

The FY 1987 budget continues to emphasize FRA's safety mission with enhanced resources to further improve our capabilities in regulatory and enforcement activities. The FY 1987 budget combines Research and Development with Railroad Safety in a request for $35,819,000 in budget authority, plus $1 million carryover and 464 permanent positions. This is a net decrease of $895,000 in budget authority and an additional six positions from FY 1986 levels.

FRA's request of $22,364,000 for Federal safety enforcement will provide for 385 field personnel positions, an increase of 6 positions. Federal enforcement of railroad safety regulations and standards have undergone extensive adjustments over the past four years to accommodate dramatic changes in the industry brought about by economic deregulation and system restructuring. These organizational and technological changes in industry operations have created new demands on FRA field offices, such as the National Inspection Plan, Systems Inspections, Safety Conferences with railroad management and labor representatives, and special training and counseling programs. So that we may manage these additional demands more effectively, FRA is requesting additional positions for five Deputy Regional Directors and one training specialist in alcohol and drug abuse.

The remaining Safety program funding will provide $1.2 million to permit continued operation and maintenance of one automated track inspection vehicle over 25,000 miles of track; and $3,674,000 in headquarters support to be used for maintaining 64 headquarters personnel positions and to upgrade accident and regulatory analysis capabilities. Although FRA proposes to eliminate the Federal cost-sharing portion of the State inspection program, we will continue to train state inspectors and coordinate State inspection plans with national programs. In FY 1987 we will continue systemwide and task force assessments to address safety problems of a systemic nature. We are proceeding on phase two of a contract that will enable us to assess high risk areas and deploy our inspector resources more effectively.

For FY 1987, $9,581,000 and 15 permanent positions are requested for the Research and Development activity. This will enable FRA to continue support of safety rulemaking activities with essential research concerning track, equipment, operations, hazardous materials, and track-train testing. The recent quantum advances in railroad technology and operations present FRA with the need to focus resources on evolving new technologies and more sophisticated railroad operations. We will continue to work to anticipate safety problems and mitigate threats to public safety in advance of the occurrence of potentially catastrophic accidents. Our current and planned research in areas such as nuclear waste casks, hazardous material tank cars, wheel safety testing, vehicle safety testing, and emergency response procedures, are prime examples of the new direction we have taken in our R&D program. Where such research yields a collateral economic benefits to the railroad industry, we will continue to work with the industry and the Association of American Railroads to bear a share of project expenses.

FEDERAL FINANCING BANK, DIRECT LOANS

This year, each agency's budget must reflect the agency's guarantee of direct loans made by the Federal Financing Bank (FFB). For FRA, the FFB disburses direct loans to private freight railroad companies backed by FRA's guarantee of the loans under Section 511. In FY 1985, FRA made commitments to guarantee $2.5 million in loans by the FFB and in FY 1986 we expect to make commitments to guarantee $3.8 million. The budget authority in this account, $1.6 million in FY 1986 and $3.8 million in FY 1987, represents the cash drawdowns that we anticipate will be made against the Section 511 loans guaranteed by FRA.

GENERAL PROVISIONS

Section 310 of the Department's General Provisions would authorize the Secretary to sell Union Station to the private sector. We now hold Union Station under a long-term lease from subsidiaries of Penn Central and CSX. In order to redevelop the Station we will have to acquire title to it by buying out the owners' interest. Section 310 would not disturb any existing agreements with the Union Station Redevelopment Corporation, the developer, Amtrak and the District of Columbia. Authorizing legislation is contained in Section 137 of H.R. 4144, the Surface Transportation Reauthorization Act of 1986. Acquisition of the facility and the proposed future sale would be subject to approval of the Appropriations Committees.

Mr. Chairman, this completes my prepared statement. I will be happy to answer any questions the Committee may have.

FRA STAFFING

Senator ANDREWS. The FRA's proposed fiscal year 1987 budget contains no funding for local rail services, for railroad safety grants, for the Northeast Corridor Improvement Program, redeemable preference shares, and Amtrak. It further assumes that the Conrail sale will have been completed and reduces funding for research and development by 6 percent.

Now, that is your assumption. Yet, based on those assumptions, the proposed fiscal year 1987 permanent position level is 660, a net decrease of only 2 positions from the 1986 level. Given the sizable reductions in the programs to be administered by your agency, why does your fiscal year 1987 budget reflect out none of these changes?

Are you going to have everybody sitting around there, drinking champagne and eating bonbons or what?

Mr. RILEY. The great majority of the personnel reductions that would follow from those program eliminations have been taken in past years when we have proposed those program eliminations, but the programs have not, in fact, been eliminated.

Now, to break them down more specifically——

Senator ANDREWS. You have nobody now employed in those program areas?

Mr. RILEY. We have sharply reduced the numbers in those program areas. We are now, particularly in Federal assistance, and I think Lou is probably a good person to give an answer to this one, as well as myself, in the Federal assistance programs we have scaled our staff down by about two-thirds over the past decade.

What we have now is a staff that is maintaining ongoing contracts that must be serviced and handling remaining earmarks. In the Northeast corridor, we have cut our Northeast corridor staff down from in excess of 50 to 8 individuals—to 8 individuals—and those 8 individuals are the residual that we would need to complete the projects that must be finished by the Federal Government following transfer.

So we have taken these reductions. Our agency has cut its overall staffing levels more than in half. Now, admittedly, the Alaska Railroad helped that enormously.

RESPONSIBILITY CUTS VERSUS STAFF CUTS

Senator ANDREWS. Sure, but in this fiscal year you are cutting your responsibilities by more than half and you are cutting your staff by two. That is one-third of 1 percent.

Mr. RILEY. Because we have cut back the staffing commensurate with our past recommendations on funding reductions. In many cases, in fact in most cases, we have still continued to receive funding for those programs.

On the other side of the coin, the State Grant Program does not take very much personnel to administer out of our office. As to the sale of Conrail, we have shifted five individuals from our normal analytical staff to do Conrail analytical work. When that job is over, they will be shifted back. We only have five people who service Conrail directly, and those people are on loan from our analytical staff.

Some of the programs we have proposed to eliminate do not correlate to large numbers of personnel, in some cases to more than single digit numbers. But in other cases, we have gone ahead and taken the reductions, and I think Northeast corridor is the best example of that. We have cut our staff down to 8 people from more than 50 a few years ago, and highway substantially more than that, in anticipation of the elimination of the program.

In other words, our staffing reductions have gotten out ahead of our funding reductions.

Senator ANDREWS. Well, we have had sad experience with staffing numbers in the ICC versus what they do, going out of business and all that. We would hate to think that now that the ICC is finally fading into the sunset, the FRA figures they have got to take up that territory of, shall we say, loaded staff positions that the ICC had to itself, or largely to itself for so long a time.

So be aware that we are aware, we are concerned when you cut out all those programs in your budget and cut only 2 employees out of 660, it shall we say intrigues our attention.

Mr. RILEY. Senator, let me make this offer to the committee. I will submit for the committee and for the record a history over the past 5 years of how we have in each of our subdepartments reduced our staffing requirements and what the assumptions were that went behind that. And I think it will tell the story.

Seventy percent of all FRA employees are now employed in the safety area, and that is a real measure of how rapidly we have scaled down the remainder of the agency.

[The information follows:]

The following table reflects the authorized positions for the Federal Railroad Administration [FRA] from fiscal year 1983 through the fiscal year 1987 request to Congress. In fiscal year 1983, the safety-related positions comprised 62 percent of FRA's total position level, excluding the Alaska Railroad. In fiscal year 1987, safety comprises 70 percent of FRA's total. The decrease in research and development reflects the change in emphasis from primarily hardware related to safety only related R&D.

Nonsafety-related positions decrease by 32 percent from fiscal year 1983 to fiscal year 1987 as a result of phasing out of the Northeast Corridor Improvement Program, reductions in funding Federal financial assistance programs and proportionate reductions in support services related to the reduced program areas.

FEDERAL RAILROAD ADMINISTRATION AUTHORIZED POSITION HISTORY
FISCAL YEARS 1983-87

Appropriation/program[1]	1983	1984	1985	1986	Est. 1987
Office of the Administrator:					
Immediate office[2]	25	24	24	23	23
Chief counsel	39	32	32	30	30
Administration	64	64	64	60	60
Office of Policy	69	51	48	48	48
Office of Passenger and Freight Services[3]	[5]83	[5]81	[5]49	36	28

Appropriation/program [1]	1983	1984	1985	1986	Est. 1987
Executive Director [3]	5	5	5	4	4
Labor/management staff [3]	4	4	4	3	3
Subtotal	289	261	226	204	196
Railroad safety:					
Federal enforcement	379	379	379	379	385
Safety Regulation and Program Administration	66	66	66	64	64
Office of Research and Development [4]	26	15	15	15	15
Subtotal	471	460	460	458	464
Subtotal, FRA	760	721	686	662	660
Alaska Railroad	585	585			
Total, FRA	1,345	1,306	686	662	660

[1] For fiscal year 1987, the budget requests merging the Rail Service Assistance appropriation with the Office of the Administrator appropriation, and the Railroad Research and Development appropriation with the Railroad Safety appropriation.

[2] Includes the Office of Civil Rights and the Office of Public Affairs.

[3] Previously funded under the Rail Service Assistance and Northeast Corridor Improvement Program appropriations through fiscal year 1986.

[4] Previously funded under the Railroad Research and Development appropriation.

[5] Includes Federal Highway Administration support positions for the Northeast Corridor Improvement Program: 1983, 23; 1984, 21; 1985, 7.

CONTROLLER GENERAL RULING

Senator ANDREWS. Well, any additional information you can supply would be a big help because right now your budget justification makes less sense than the budget justification of most of the agencies and departments that we look at.

So in your interests, a little more information might well help us when we go the markup on this bill.

Now, the general counsel of DOT on March 11 asked the Controller General to rule on the availability of redeemable preference share funds appropriated for fiscal year 1986.

What is the status of that request?

Mr. RILEY. That request was sent over on the 11th and we have asked to have an opinion delivered to us by April 15 because April 15 would be the day on which the recision would expire if not acted on. The status of the request is that it is before the Controller General. We are awaiting a response.

Senator ANDREWS. Why did you feel that a GAO decision was necessary?

Mr. RILEY. Frankly, this is a tough issue and it is a tough issue because it involves a legal interpretation of wording. There has never been any question in my mind, or I think in any of our minds, that the committee intended those funds to be appropriated and dispensed.

I was advised the last week of January by our chief counsel in FRA that in the discussions he was having with one of the applicants, FRA's chief counsel had looked at the language and found a problem. The Section 505 Program is unusual in that the appropriation goes to

Treasury and then the Secretary of Transportation has to float commercial paper which the Treasury Department buys to transfer the dollars to us.

The authority had lapsed to float that paper at the end of September. There has not been a question that the appropriation was validly provided, but I was advised by FRA counsel that we lacked the legal authority to float the paper and if we did it, that the loan would be ultra vires.

In order to make sure, that was the right decision, I recommended to the Department that we ask the Controller General, in effect to appeal our own counsel's judgment to the Controller General.

As an administrator, I cannot release those funds against an opinion of our counsel telling me I have no authority. If, however, the Controller General who mediates things of this nature, comes up with an opinion differing from our counsel, I will follow the Controller General's judgment.

COMMITTEE CLARIFICATION

Senator ANDREWS. Well, we understand now that it is the FRA that had problems with the language of the appropriations bill. If you had a problem about the intent of the language, why didn't you ask the committee for clarification?

Mr. RILEY. Senator, we have had no question that the committee intended that the dollars be appropriated and spent. What our counsel has told us is that, notwithstanding clear intent, the absence of language specifically authorizing us to float the commercial paper would make the commercial paper invalid, of no force and meaning.

That is the problem I have had to deal with. Again, if in fact the Controller General tells us to go ahead, that in his judgment the language is sufficient, we will do so. If not, I suspect we will have to——

Senator ANDREWS. Let me point out that the House had this in the bill from June on. Now, if your attorney—you have 660 guys down there, and women—you would almost think that if he had some question about the way this language was crafted, he would have called it to the attention of the committee before it went through the Senate.

Now, when you look at the areas that are impacted in this particular deal—North Dakota and Mississippi, a couple of other States—but if I have forgotten how to write language on an appropriation bills, Jamie Whitten sure as heck has not. And you would almost think that your attorneys, if they had some question about it, in that period of several months from the time it appeared in the House bill, could have gotten in touch with us and said, hey, we have got some difficulty here; we know clearly what your intent is, but why don't you cross this t or dot that i?

Why did you not make any attempt whatsoever to talk to Bill Leyman in his shop, Jamie Whitten and his staff, or us over here and said you have got a glitch?

Mr. RILEY. Senator, two points on that. My understanding, if my recollection is correct, the Senate language was correct. The Senate language would have given us the necessary authority, and that is my recollection. I may have to qualify that. But the House language was incorrect.

The language that came out of conference created the problem. It is my understanding——

COMMITTEE NOT ADVISED

Senator ANDREWS. That is fine, but because you made no—your counsel who said the language that came out of conference made no problem—we put it in, I am proud of my staff, in a little different way, but the House had their language and since it had stood the test of time for these months that it had been hanging out there, no comment from your whatsoever, in the conference we assumed it did not make much difference which way we went.

Now you are telling us, hey, we preferred the Senate language. Why didn't you let us know you did not like the House language?

Mr. RILEY. Senator, it is my understanding that our staff communicated with staff on both sides of the Hill on that. We did not notice that the wrong language had come out until late in January. I got my first appraisal of this——

Senator ANDREWS. Well, you did not communicate with my staff, they are telling me, that the House language was bad, and the House staff did not communicate with our staff that there were some questions. We put ours in on our own. They put theirs in on their own. When we came to the conference, we figured six of one, half a dozen of the other, quite candidly, or I did.

Mr. RILEY. Senator, I did not personally communicate with either staff, but it is my understanding that FRA staff did communicate the problem.

CORRECTION OF LANGUAGE

Senator ANDREWS. Well, let us know who they talked to and why, and if it is found that the existing language is insufficient to get the job done, if you find this out on April 14, you do not have much time left—it is now the 9th—what is the remedy?

Mr. RILEY. If the existing language is inadequate, the language is going to have to be fixed. The language is just going to have to be redrawn or redrafted and put on one of the technical correction bills or some other vehicle.

Senator ANDREWS. On the supplemental perhaps.

Mr. RILEY. Wherever it can go.

RELEASE OF FUNDS

Senator ANDREWS. Now, if the rescission is not enacted by the deadline of April 15, are you going to immediately release the funds?

Mr. RILEY. If in fact the rescission is not adopted and we get clearance from the Controller General——

Senator ANDREWS. Do you think there is any chance the rescission will be adopted?

Mr. RILEY. Senator, I cannot really speculate on that. But if the rescission is not adopted——

Senator ANDREWS. Speculate. Do you believe in the tooth fairy?

Mr. RILEY. Senator, that is a decision that Congress has to make. And I am not going to try to step into Congress' role.

Senator ANDREWS. You have been around, you know.

Mr. RILEY. But if it is not adopted and if the Controller General gives us an affirmative opinion, we would be free to disperse the funds. In fact, we have told the parties who are applying that we will continue to work with them and process their grants in the interim.

We have not shut our doors to the parties seeking the grants in the interim. We have continued to work with them so that they would not lose the 60 days in the event that the projects went ahead.

TRI-COUNTY COMMUTER RAILROAD PROJECT

Senator ANDREWS. Well, I think probably what you have told us is that we are going to do it in the supplemental and that is the way to do it.

Now, as you know, included in last year's continuing resolution, $12.5 million was earmarked for the Tri-County Commuter Railroad Project, Dade, Brower, and Palm Beach Counties. Report language urged that consideration be given for another $4 million for this project to connect the southern terminus with the Metro Dade Rail System.

You have had meetings on this matter with Florida officials. You have provided comments on the section 505 loan application for the Tri-County Rail Organization.

Can you tell the committee where you stand on getting this project underway?

Mr. RILEY. We have received a preliminary application from them and I have personally met with them and our staff met with them a number of times. As far as the meritorious nature of the project goes, whenever there is an earmarking, in our view that is conclusive on the meritorious nature. So we deem the project to be meritorious.

There are two statutory hurdles they have to clear. One is that the 505 Program requires a certification that there is adequate security for the loan. The second is that the 505 Program requires a certification that the loan can be repaid. Those are the two statutory certifications we have to make.

We have talked with the Tri-County people about a number of ways that they—they are a commuter project. The economics in commuter projects are not normally quite the same as they are in rail freight projects, which is what 505 was written for, but there are several ways that they could approach the security issue and the repayability issue that might in fact fulfill those requirements, and we are working with them on it.

I do think it can be accomplished. I do think it can be accomplished.

SEARCH FOR CANDIDATES TO TAKE OVER AMTRAK

Senator ANDREWS. Since this time last year, what State or local governments or private groups has FRA negotiated with to assume Amtrak passenger services?

Mr. RILEY. After the hearing here last year, I met at DOT with representatives from most of the Northeast corridor States, and we talked about the issue. The outcome of the discussion was as follows.

They were very candid in telling us that they were strongly opposed to the administration's position on funding; that any action taken to negotiate with us to create an alternate funding mechanism would undercut that position; and that they did not intend to proceed with further discussions and negotiations.

I have made the same offer to States outside the Northeast corridor and I have not generated any interest. I simply want to make the point again that if in fact there are others, whether it is at the State level, the local level, or the private level that want to step into the Federal Government's role, we are prepared to work with them and devote our resources to it.

But they have got to make that decision and step forward.

Senator ANDREWS. But you are telling the committee that after a year of seeking that kind of interest, you have not found any.

Mr. RILEY. That is correct. Now, perhaps if the States and localities did not believe that the project was in fact going to be refunded, there would be a greater level of interest. But I think their perception is that the project will be——

Senator ANDREWS. Mr. Riley, given your persuasive powers, I would imagine that you have convinced them that there was this interest and the fact that they did not respond would indicate that they have no interest whatsoever.

So I cannot imagine that you did not pursue it with the great diligence that you have in your whole makeup, so I would assume that a great effort has been made and there's nobody out there.

Mr. RILEY. My personal opinion is that in some cases that is true. In other cases if there were a clear perception that the funding was about to cease, there would be interest. But I cannot tell you which State falls in which category.

Senator ANDREWS. No; and because you cannot tell us, you have not been able to locate, shall we say, anybody who is interested, I would assume that there is not anybody who is interested, or you would because this is your challenge and this is your opportunity to say this is a viable alternative to Amtrak.

But this committee, as I talked to President Claytor when he appeared, and you were here, you listened to his testimony, we are trying to make a record to take to the floor to justify whatever action the Senate may want to vote on. We want that vote to be done on the basis of fact.

He pointed out some of the costs that would be involved in shutting down Amtrak. One of the alternatives to Amtrak has to be running it with other entities. And now you are running the shop that says we do not need Amtrak, and we threw the ball to you. You caught it, but you sure as heck did not run with it very far, because you have not come up with any alternative as to how you have identified someone or some group or some organization that can provide some of this identified transportation need that will be abandoned if Amtrak is abandoned.

Mr. RILEY. It is our judgment, and I told this to the State officials that I met with, that the fact that other stakeholders who were lobbying for the program were unwilling to support it financially is not a compelling argument for Federal subsidy.

UNION STATION RENTAL INCOME

Senator ANDREWS. Mr. Riley, the administration recently signed with a private development group an agreement regarding Union Station. Under that agreement, developers are to pay the Federal Government $1 million a year in rent.

When will the Federal Government start to realize this rental income?

Mr. RILEY. They will start to realize the rental income when the developer formally occupies the station in 1988, with the first payment due on April 1989.

TRI-COUNTY RAIL PROJECT

Senator CHILES. I just wanted to thank you for asking the question that I was interested in, in the Tri-County Rail. I was not sure I would get back, and thank you for asking that.

Senator ANDREWS. We take care of you.

Senator CHILES. And I understand from your answer that you thought that was a meritorious project in the Tri-County Rail?

Mr. RILEY. Senator, if I can reiterate just very briefly my view, we treat all earmarking as a definitive judgment on meritorious nature. There are two obstacles that are going to have to be overcome. They filed a preliminary application. And they come from the fact that 505 is a freight rail program and some of the criteria are designed for freight railroads and do not fit commuter rail quite so well.

One is that there be adequate security for repayment. The second is that there be cash flow estimates which would support repayment. And we have talked with the people from Florida about various ways that they can approach overcoming those obstacles in their unique circumstances. I am not prepared to tell you that they have yet done it, but I am saying they are working hard on it. I think it is conceivable that it can be done.

Senator CHILES. We want to continue to work with you on that and we thank you for your cooperation.

Mr. RILEY. We do, too. And we have urged them to continue working with us right through the time we are waiting to get the language issue resolved.

JUSTICE REVIEW OF CONRAIL SALE

Senator ANDREWS. Mr. Riley, what is the status of the Justice Department's review of the Conrail sale?

Mr. RILEY. My understanding is that the Justice Department has hired Mr. Banks to do the second phase of the review. Beyond that, I can tell you very little about it. I understand simply from talking to the railroads that it is underway, that people from Banks' team have visited the carriers. Other than that, it is an in-house study.

JUSTICE CONTRACTOR'S REPORT

Senator ANDREWS. Has Banks' team made a report of their findings?

Mr. RILEY. Not to the best of my knowledge. There has been no report to us.

Senator ANDREWS. What is the due date of that report?

Mr. RILEY. I have not been given a formal due date. I have heard estimates ranging from mid-May to the first week of June.

Senator ANDREWS. Well, it is the committee's understanding it would be 50 days from February 14.

Mr. RILEY. Senator, that is a question the Justice Department would have to answer. That was my understanding as well, and perhaps it is off to a later than anticipated start.

Senator ANDREWS. Is that working days or calendar days?

Mr. RILEY. I do not know. That is a Justice number.

Senator ANDREWS. What is the cost of the study and who is paying for it?

Mr. RILEY. We are paying for the study. The cost to FRA is $350,000.

FRA PAYMENT FOR STUDY

Senator ANDREWS. What authority do they have in Justice to have you be compelled to pay for some report that you do not know when it is going to come or how it is going to be worded?

Mr. RILEY. I think the argument—it is an interagency agreement and it is patterned on the same theory as our paying for Goldman, Sachs as an expense of the Conrail sale.

Senator ANDREWS. Well, isn't there a conflict in you paying for a report that is supposed to review your work on this sale?

Mr. RILEY. No; because we gave Justice Department the dollars in advance and have no role whatsoever in either picking the person doing the study or reviewing his results. We will not see, as my answer I am sure reflects, we have no supervisory role over that and we will not see the results of that study until it comes in.

Senator ANDREWS. Has the money been transferred?

Mr. RILEY. We have committed the money and I believe it has been transferred. I gave an irrevocable commitment of the dollars to the Justice Department.

Senator ANDREWS. What authority do you have to transfer that money?

Mr. RILEY. Interagency agreement between the Department of Transportation and the Department of Justice, I am told.

Senator ANDREWS. You never requested it from the appropriating committee. Don't you have to, when you transfer out of your shop to another shop, get an appropriation authorization in a sense to transfer that money?

Mr. RILEY. Senator, I cannot answer that personally but my budget man is whispering something in my ear. Let me yield to him to have him answer that. I do not pretend to have that knowledge of that aspect.

FRA METHOD OF PAYMENT

Senator ANDREWS. Well, fine. Whoever has got the answer.

Mr. RILEY. Bill, do you want to come up and make a response to that?

Mr. BALLERINI. Senator, it is not a transfer, an appropriation transfer. All it is is a reimbursable agreement. We pay the money through a reimbursable process.

Senator ANDREWS. I know, but you come before this subcommittee and you ask for certain appropriated funds to do certain things. And now all of a sudden, here you are taking money that you have asked for one category, and appropriating it to send it over to another Department.

Mr. BALLERINI. It was paid out of the northeast rail studies funding that was appropriated in prior years. This is from carryover funds. It was not specifically appropriated for Department of Justice, but it was appropriated for the Northeast rail studies.

Senator ANDREWS. What was it specifically requested for in the budget—for Northeast rail studies?

Mr. BALLERINI. That is right, concerning the sale of Conrail.

Mr. RILEY. This is carryover funding, Senator, that goes back to the days of the passage of the NERSA Act when there were a number of analyses being done by FRA and DOT.

CARRYOVER FUNDING

Senator ANDREWS. You are talking about carryover money from about 1981, aren't you?

Mr. RILEY. We would be talking about carryover money from that vintage or that era.

Senator ANDREWS. He is nodding in the first row, the man with the answer.

Mr. RILEY. I hope it is affirmative.

Senator ANDREWS. I have always found that the further back you go in the rows, the more accurate the answers you get. [Laughter.]

Mr. RILEY. I agree with that. Fortunately, we nodded the same way.

Senator ANDREWS. Now, what that leads me to assume is that we just have not done a good enough job of scrounging around through your budget and finding out how much holdover funds you have got laying around that place.

Mr. RILEY. Senator, we report all of our holdover funds, and those dollars were appropriated to this agency to do whatever studies were necessary to complete the reformulation and transer of Conrail. That process is not yet completed and we are using them consistent with the goal for which they were appropriated.

The reason that they were no-year funds is recognition that this was not going to be a 1-year process; it was going to spin on for a number of years.

Senator ANDREWS. The sale?

Mr. RILEY. The sale. Or the transfer, whatever it would be.

Senator ANDREWS. Have you notified the Secretary of Transportation that you expect the sale of Conrail to spin on for a number of years?

Mr. RILEY. Back in 1981 when those funds were appropriated, it was obviously the expectation that the sale would not take place in 1981 but would go off for a number of years into the future, and that was my reference.

Senator ANDREWS. I know that, but you are talking in terms of April 1986 when you are saying it is going to spin on for a number of years. How many years do you anticipate it is going to spin on?

Mr. RILEY. No; when I said that it would go on for a number of years, I was referring to when the appropriations were made back in 1981, consistent with the NERSA Act. It was obvious then that the Conrail sale process would go on for a number of years.

It is my hope and expectation that the process is going to end this year.

Senator ANDREWS. Mr. Riley, could we ask your shop to provide for the record at this point all the documentation of this interagency agreement, when it was reached, how it was done, and all of that?

Mr. RILEY. I would be glad to do that.

[The information follows:]

DOCUMENTATION OF INTERAGENCY AGREEMENT BETWEEN THE FEDERAL RAILROAD ADMINISTRATION AND THE DEPARTMENT OF JUSTICE

DEPARTMENT OF TRANSPORTATION
REIMBURSABLE AGREEMENT

AGREEMENT NUMBER: DTFR53-86-X-00019

PARTIES TO THE AGREEMENT

a. REIMBURSING ORGANIZATION
Federal Railroad Administration
Office of Procurement, RAD-30
400 Seventh Street, S.W., Room 8222
Washington, D.C. 20590

b. ORGANIZATION TO BE REIMBURSED
U.S. Department of Justice
Antitrust Division
10th & Pennsylvania Ave. N.W., Room 7127
Washington, D.C. 20530

APPROPRIATION CHARGEABLE: I 86-2153-2590

APPROPRIATION REIMBURSED: 1650319

EFFECTIVE DATE: January 28, 1986

COST *(Estimated)*
a. FY: 86
b. AMOUNT: $350,000.00

SUMMARY

The Federal Railroad Administration (FRA), Department of Transportation hereby agrees to reimburse the Antitrust Division, Department of Justice (DOJ) for performing a comprehensive analysis of the competitive impact and financial feasibility of Norfolk Southern Corporation's proposed divestiture of certain rail properties to Guilford Transportation Industries (GTI) and Pittsburgh and Lake Erie Railroad (P&LE) in connection with the proposed sale of Consolidated Rail Corporation (Conrail) to Norfolk Southern.

Attached is a Statement of Work specifying the requirements and deliverable items encompassed under this agreement. The term of this agreement shall commence on January 28, 1986 and shall continue through March 31, 1986.

Reimbursement to DOJ shall be made by FRA in advance on a one-time, lump sum basis upon submission of a "Voucher and Schedule of Withdrawals and Credits" (SF-1081) by DOJ.

The DOJ technical representative under this agreement shall be:

James R. Weiss
Antitrust Division
U.S. Department of Justice
414 11th Street, N.W., Room 8120
Washington, D.C. 20530
Telephone: (202) 724-6350

(Financial Addendum On Reverse Side Must Be Completed)

AUTHORIZED APPROVALS

a. FOR REIMBURSING ORGANIZATION
SIGNATURE: Elouise J. Embry DATE: 1/28/86
TITLE: Elouise J. Embry
Contracting Officer

b. FOR ORGANIZATION TO BE REIMBURSED
SIGNATURE: DATE: 1/29/86
TITLE: Executive Officer, Antitrust Division

Form DOT F 2300.1 (Rev. 3-79)

FINANCIAL ADDENDUM

Billing Office: Federal Railroad Administration, Office of Accounting Operations, RAD-43

Bill To Address: 400 7th Street, S.W., Room 8211, Washington, D.C. 20590

Agency Location Code:

DOT Project Officer: *(Name)* Al Johnson **Routing Symbol** RRP-33
(Telephone) 472-7770

Accounting Classification: I 86-2153-2590 - $350,000.00

Project Beginning Date: **Ending Date:** March 31, 1986
Upon signature in block b., Auth. Approval

Each specific item of goods or services to be furnished under the terms of this agreement are as follows:

IDENTIFY THE FOLLOWING.

Billable Charges:

Method of Computation of Charges:

Estimated Cost:

Billing Period(s) X *(Monthly)* ____ *(Quarterly)*
____ *(Other)* Specify:

Documentation required by the User Agency as a condition of payment is as follows:

SF 1080

STATEMENT OF WORK

I. SUMMARY

The Department of Justice (DOJ) shall analyze the accuracy of the representations and feasibility of the proposed actions of Norfolk Southern Corporation (NS) to divest certain rail assets to, and to permit the use of certain rail assets by, Guilford Transportation Industries (GTI), and Pittsburgh and Lake Erie Railroad (P&LE) in order to alleviate the potential anti-competitive effects of the proposed sale of Consolidated Rail Corporation (Conrail) to NS. The Federal Railroad Administration (FRA) shall reimburse DOJ in advance for the full cost of performing this analysis. DOJ shall furnish a written report of such analysis to FRA following the Attorney General's final decision on the merits of the NS divestiture proposal.

II. WORK ELEMENTS

A. DOJ shall develop a detailed scope of work for a contract to study and analyze the accuracy of the representations made by NS, GTI and P&LE in response to DOJ letters of January 29, 1985 and March 26, 1985 concerning the potential anti-competitive effects of the sale by DOT of Conrail to NS. The scope of work shall include a requirement to analyze the competitive impact and financial feasibility of the agreements entered into and other actions to be taken by NS, GTI and P&LE to alleviate the potential anti-competitive effects of such sale.

B. After completion of the scope of work, DOJ shall enter into a contract with a contractor selected by DOJ in accordance with applicable procurement regulations to provide the analytical services specified in Paragraph A above.

C. Upon completion of the contract, DOJ shall analyze the findings contained in the contractor's final report and prepare a report to the Attorney General concerning the accuracy of the representations made, and the feasibility of the actions to be taken, by NS, GTI and P&LE and their compliance with the previous findings and recommendations by DOJ concerning the potential anti-competitive effects of the sale of Conrail to NS.

III. SCHEDULE OF DELIVERABLES

A. Upon contract award in accordance with Paragraph II.B. above, DOJ shall provide the FRA with copies of the contract, which shall include the finalized scope of work.

B. Following the Attorney General's final determination with respect to the competitive sufficiency of the proposed divestiture actions, DOJ shall provide FRA with copies of the Attorney General's written determination, DOJ's summary analysis and the contractor's final report.

C. All of the foregoing deliverable items under this agreement will be made in two (2) copies to the Administrator, Federal Railroad Administration.

IV. SPECIAL CONDITIONS

A. Reimbursement to DOJ under this agreement shall be made by FRA in advance of the award of the contract specified in Paragraph II.B. above. Such reimbursement shall not be contingent upon FRA's receipt of any of the deliverable items specified in Paragraph III above.

B. FRA shall have no contact with the DOJ contractor under the contract entered into pursuant to this agreement, except as may be directed or requested by DOJ.

C. FRA agrees to abide by any restriction on dissemination of any materials provided to it by DOJ.

D. FRA shall not be obligated to provide any funds in addition to the funds provided in this agreement, regardless of the actual cost of the contract specified in Paragraph II.B. above.

READ INSTRUCTIONS ON REVERSE *NO CARBON REQUIRED* PAGE 1 OF PAGE

DEPARTMENT OF TRANSPORTATION

PROCUREMENT REQUEST
PROCESS RAPIDLY

PROCUREMENT REQUEST NO. PR 34-0020-6

DATE RECEIVED

1. NAME, PHONE NUMBER, AND ROUTING SYMBOL OF PERSON TO CONTACT: Alfred P. Johnson, 472-7270, RRP-3

2. TYPE OF REQUEST (Check one)

A. ☒ NEW REQUEST

B. ☐ CHANGE TO PENDING PR NO.

C. ☐ MODIFICATION TO CONTRACT OR ORDER NO.

3. ORIGINATING OFFICE DATA: Office of Policy

4. ADDITIONAL INFORMATION (Suggested supply sources, security data, etc.): Department of Justice

5. APPROVALS

APPROVING OFFICIALS (A)	ROUTING SYMBOL (B)	DATE (C)	INTERNAL ROUTING INITIALS (D)	INTERNAL ROUTING ROUTING SYMBOL (E)
(1) AUTHORIZED REQUISITIONER James C. Rooney Deputy Administrator	ROA-2			
(2) ACCOUNTING CERTIFICATION OFFICER Alfred P. Johnson Fund Administrator	RRP-3	1/28/86	AJ	RRP3
(3) Thomas F. Ferrara Act'g Assoc Admr for (4) Policy	RRP-1	1/28/86		

6. CONSIGNEE AND DESTINATION

Federal Railroad Administratio
400 7th Street, S.W.
Washington, D.C. 20590

7. DATE(S) REQUIRED: ASAP

8. GOVERNMENT FURNISHED PROPERTY ☐ YES ☐ NO (If "YES," see par. 8 of Instructions on reverse.)

9. DESCRIPTION OF ITEMS OR SERVICES

ITEM NO. (A)	ITEM OR SERVICE (Include Specifications and Special Instructions) (B)	QUANTITY (C)	UNIT (D)	ESTIMATED COST UNIT (E)	ESTIMATED COST AMOUNT (F)
	The Department of Justice will study the potential anti-competitive effects of the sale of Conrail to the Norfolk Southern Corporation.				

After the completion of the above, DOJ should provide FRA with the analytical services derived from the study.

The DOJ shall analyze the contractor's final report and make a final report to the Attorney General.

Statement of Essential Need

The purpose of this contract is to analyze the accuracy of certain representations and feasibility of the proposed actions of the Norfolk Southern (NS) to divest certain rail assets to the Guilford Transportation Industries (GTI) and the Pittsburgh and Lake Erie Railroad (P&LE) in connection with the proposed sale of Conrail to the Norfolk Southern. The contract is needed by the Dept of Justice in their determination of the above mentioned representations related to the feasibility of the divestitures and is essential to the sales process.

Date Received 1/28/86

[illegible] To Sherry

[illegible]/Disadvantaged Business Review

Consulting Service OMB A-120 ☐Yes ☐No

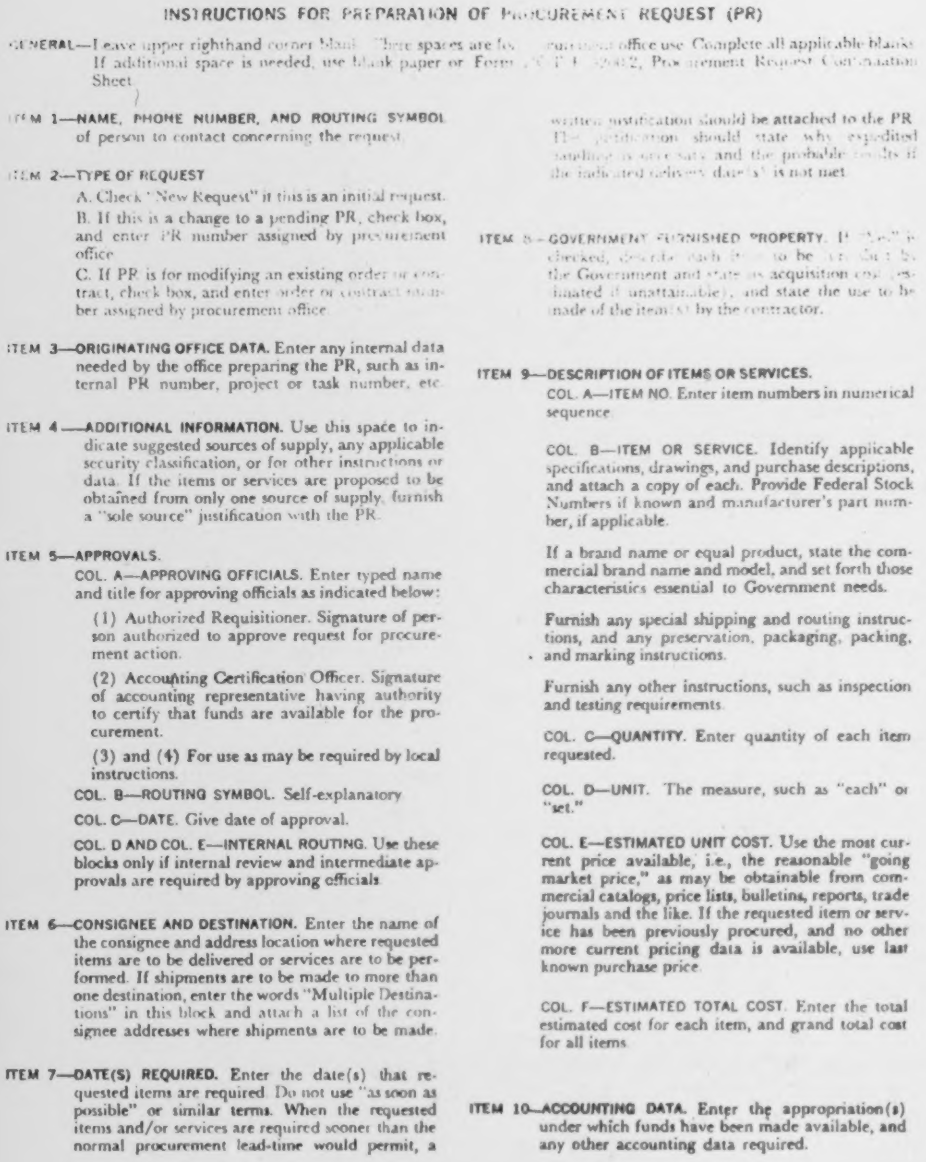
TOTAL ESTIMATED COST $ 350,000.00

10. ACCOUNTING DATA

I 86-2153-2590

1/28/86

FORM DOT F 4200.1



INSTRUCTIONS FOR PREPARATION OF PROCUREMENT REQUEST (PR)

GENERAL—Leave upper righthand corner blank. These spaces are for procurement office use. Complete all applicable blanks. If additional space is needed, use blank paper or Form [illegible], Procurement Request Continuation Sheet.

ITEM 1—NAME, PHONE NUMBER, AND ROUTING SYMBOL of person to contact concerning the request.

ITEM 2—TYPE OF REQUEST

A. Check "New Request" if this is an initial request.

B. If this is a change to a pending PR, check box, and enter PR number assigned by procurement office.

C. If PR is for modifying an existing order or contract, check box, and enter order or contract number assigned by procurement office.

ITEM 3—ORIGINATING OFFICE DATA. Enter any internal data needed by the office preparing the PR, such as internal PR number, project or task number, etc.

ITEM 4—ADDITIONAL INFORMATION. Use this space to indicate suggested sources of supply, any applicable security classification, or for other instructions or data. If the items or services are proposed to be obtained from only one source of supply, furnish a "sole source" justification with the PR.

ITEM 5—APPROVALS.

COL. A—APPROVING OFFICIALS. Enter typed name and title for approving officials as indicated below:

(1) Authorized Requisitioner. Signature of person authorized to approve request for procurement action.

(2) Accounting Certification Officer. Signature of accounting representative having authority to certify that funds are available for the procurement.

(3) and (4) For use as may be required by local instructions.

COL. B—ROUTING SYMBOL. Self-explanatory.

COL. C—DATE. Give date of approval.

COL. D AND COL. E—INTERNAL ROUTING. Use these blocks only if internal review and intermediate approvals are required by approving officials.

ITEM 6—CONSIGNEE AND DESTINATION. Enter the name of the consignee and address location where requested items are to be delivered or services are to be performed. If shipments are to be made to more than one destination, enter the words "Multiple Destinations" in this block and attach a list of the consignee addresses where shipments are to be made.

ITEM 7—DATE(S) REQUIRED. Enter the date(s) that requested items are required. Do not use "as soon as possible" or similar terms. When the requested items and/or services are required sooner than the normal procurement lead-time would permit, a written justification should be attached to the PR. The justification should state why expedited handling is necessary and the probable results if the indicated delivery date(s) is not met.

ITEM 8—GOVERNMENT FURNISHED PROPERTY. If "Yes" is checked, describe each item to be furnished by the Government and state its acquisition cost (estimated if unattainable), and state the use to be made of the item(s) by the contractor.

ITEM 9—DESCRIPTION OF ITEMS OR SERVICES.

COL. A—ITEM NO. Enter item numbers in numerical sequence.

COL. B—ITEM OR SERVICE. Identify applicable specifications, drawings, and purchase descriptions, and attach a copy of each. Provide Federal Stock Numbers if known and manufacturer's part number, if applicable.

If a brand name or equal product, state the commercial brand name and model, and set forth those characteristics essential to Government needs.

Furnish any special shipping and routing instructions, and any preservation, packaging, packing, and marking instructions.

Furnish any other instructions, such as inspection and testing requirements.

COL. C—QUANTITY. Enter quantity of each item requested.

COL. D—UNIT. The measure, such as "each" or "set."

COL. E—ESTIMATED UNIT COST. Use the most current price available, i.e., the reasonable "going market price," as may be obtainable from commercial catalogs, price lists, bulletins, reports, trade journals and the like. If the requested item or service has been previously procured, and no other more current pricing data is available, use last known purchase price.

COL. F—ESTIMATED TOTAL COST. Enter the total estimated cost for each item, and grand total cost for all items.

ITEM 10—ACCOUNTING DATA. Enter the appropriation(s) under which funds have been made available, and any other accounting data required.

SUBMITTED QUESTIONS

Senator ANDREWS. Now, I have a number of other questions. Other Senators on the subcommittee have some questions for the record. Senator Hatfield has some questions for the record.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR ANDREWS

FEDERAL RAILROAD ADMINISTRATION OVERVIEW

SENATOR ANDREWS: How many people are now employed in the program areas that you propose for elimination?

ANSWER: As of mid-April 1986, there are 39 people working in the Office of the Associate Administrator for Passenger and Freight Services. Virtually all of these people work, at least in part, in the program areas being proposed for eliminaton. In addition, there is one staff person involved in the administration of rail safety grants to the States.

In the long term, assuming that these programs are, in fact, eliminated, the need for most of these people would be reduced significantly. However, in the short term, particularly 1987, we have reduced the proposed staffing level in the areas by only eight positions in relation to the 1986 level. We will still need most of them on board to handle the following activites in these program areas:

- To monitor existing section 505 projects that are not yet complete.
- To close out section 505 projects that are complete.
- To administer outstanding section 505 loans and section 511 guarantees and to protect the Federal interest therein.
- To close out Local Rail Service Assistance grants to the States.
- To monitor the remainder of NECIP projects, including the grant to Amtrak. (Over $250 million of these funds has yet to be expended.)
- To protect the Federal interest in Amtrak's assets.

SENATOR ANDREWS: The Administration has proposed rescinding Section 803--Rail Service Assistance funds ($15 million), Northeast Corridor funds ($12.5 million) and Section 505 Redeemable Preference Share funds ($33.5 million). If the rescission is not enacted by the deadline of April 15th, will FRA immediately release the funds? If not, why not?

ANSWER: The rescission proposal excluded the 4.3 percent sequestering under the Gramm-Rudman-Hollings Act, which reduces the amounts involved to $14.4 million for the Local Rail Service Assistance program, $12.0 million for the Northeast Corridor, and $32.1 million for Redeemable Preference Shares. Absent an enactment of the rescission, FRA will proceed to release the funds after reapportionment by OMB as follows:

In the Local Rail Service Assistance program, the planning grants provided by statute will be disbursed to the states promptly; we will complete the processing of applications in hand for the prescribed entitlement money; and we will go ahead with immediate notification to the states on applications for the available discretionary funds.

The Northeast Corridor funds will be made available to Amtrak upon completion of an amendment to the Amtrak grant to include the additional funding.

Subject to the guidance we receive from the Comptroller General on our ability to receive and obligate the appropriated Redeemable Preference Share funds, release of the preference share money will require submission of applications by the prospective recipients of the designated project funds and completion of financing agreements in each case upon a determination that the statutory findings required for approval of the applications can made. In our letter to the Comptroller General, we asked that the Comptroller General's opinion on our authority to act on the preference share funding be provided by April 15, 1986.

SENATOR ANDREWS: Has FRA continued to process requests for the Local Rail Service Assistance funds and the Redeemable Preference Share funds while waiting for Congressional action on the rescission request? If not, why not?

ANSWER: Requests for carryover FY 1985 Local Rail Service Assistance funds, which are not affected by the rescission request, have been processed. While we have not formally received any applications for the designated Redeemable Preference Share funding, we are working and will continue to work with the applicants in reviewing their data and refining their applications as we would do if the funds were available.

SENATOR ANDREWS: If processing has continued, what is the status of the projects under these programs. That is, who has applied for Local Rail Service Assistance funds, for what purpose and for what amount?

ANSWER: Since October 1, 1985, a total of $8,410,880 in Local Rail Service Assistance has been approved with FY 1985 carryover funds. Attached is a list of these grants. Also attached is a list of pending applications for Fiscal Year 1986 funds.

FISCAL YEAR 1986 GRANTS

STATE	PURPOSE	AMOUNT
Arizona	Rehabilitation of 29.4 miles of San Manuel Railroad between Hayden and San Manuel	$ 126,401
California	Rehabilitation of 49 miles of Sierra Railroad between Oakdale and Standard	300,000
Georgia	Rehabilitation of 15 miles of Seaboard System from McCoysville to Blue Ridge and Murphy Junction to Mineral Bluff	124,128
Idaho	Rehabilitation of St. Maries River Railroad between St. Maries, Plummer, and Bovill Junction	185,893
Kansas	Rehabilitation of 12 miles of Oklahoma-Kansas-Texas Railway between Riverdale and Wellington	300,000

Massachusetts	Rehabilitation of 4.9 miles of Boston & Maine's Danvers Branch, including Waters Bridge	256,953
Michigan	Rehabilitation of 79 miles of Tuscola & Saginaw Bay Railroad between Ashley and Marion	1,082,847
Minnesota	Rehabilitation of 94 mile Madison to Hanley Falls line	577,000
Mississippi	Rehabilitation of 9 miles of Columbus & Greenville Railway between Mathiston and Stoneville	500,000
Missouri	Rehabilitation of 10.7 miles of Missouri-Kansas-Texas Railroad between LaDue and Appleton City	300,000
	Acquisition of Chillicothe to Kelly line	377,510
Montana	Reinstallation of 4.5 miles of track and construction of connection between Moore and Sipple	250,000
Nebraska	Rehabilitation of 12 miles of Chicago & North Western track between Stuart and Long Pine	300,000
New York	Rehabilitation of 7.3 miles of Dansville and Mt. Morris Railroad between Dansville and Groveland	472,500
North Dakota	Rehabilitation of 19.6 miles of Soo Line between Wishek and Ashley	668,623
Oklahoma	Rehabilitation of 26.2 miles of Oklahoma-Kansas-Texas Railroad between Addington and Texas border	400,000
Oregon	Rehabilitation of 3.5 miles of City of Prineville Railway in Prineville	219,000
Pennsylvania	Emergency repair of 22.3 miles of Scranton to Carbondale line	288,600
South Carolina	Rehabilitation of 11.7 mile Greenville Northern Railway between Greenville and Travelers Rest	100,000

South Dakota	Rehabilitation of 128 mile State-owned Mitchell to Aberdeen line	852,347
Tennessee	Rehabilitation of bridges on Nashville & Ashland City Railroad	169,078
Texas	Rehabilitation of bridges on 31.6 mile Border Pacific Railroad between Mission and Rio Grande City	300,000
Virginia	Rehabilitation of Eastern Shore Railroad between Pocomoke, Maryland and Norfolk, Virginia	100,000
West Virginia	Continued rehabilitation of South Branch Valley Railroad	150,000
Wyoming	Rail Planning	50,000
	TOTAL	$8,450,880

PENDING FISCAL YEAR 1986 APPLICATIONS

STATE	PURPOSE	AMOUNT
Alabama	Planning	$100,000
Alaska	Planning	100,000
Arkansas	Planning	100,000
California	Planning	100,000
Colorado	Planning	70,226
Connecticut	Planning	100,000
Florida	Planning	100,000
	Rehabilitation of Atlanta & St. Andrews Bay Railroad	130,000*
Georgia	Planning	100,000
Idaho	Planning	100,000
Illinois	Planning	100,000
Indiana	Planning	50,000
Iowa	Planning	100,000

Kentucky	Rehabilitation of Illinois Central Gulf's West Henderson line	190,692**
Louisiana	Planning	100,000
	Rehabilitation and relocation of track in City of Gretna	630,200*
Maine	Planning	100,000
	Repair of fire damaged bridge on Canadian National in City of Portland	221,000**
Massachusetts	Planning	100,000
Michigan	Planning	100,000
Minnesota	Planning	100,000
Mississippi	Planning	100,000
Missouri	Planning	100,000
Montana	Planning	100,000
Nebraska	Planning	100,000
Nevada	Planning	100,000
New Hampshire	Planning	100,000
New Jersey	Planning	100,000
	Rehabilitation of Rockaway Branch being abandoned by Conrail	389,253**
New Mexico	Planning	100,000
New York	Planning	100,000
North Carolina	Planning	62,090
North Dakota	Planning	100,000
Ohio	Planning	100,000
	Acquisition of Wellston and Fernald lines and rehabilitation of Blue Ash, Pioneer, Toledo Terminal, and Moxhalia lines	5,938,989

Oregon	Planning	49,000
	Emergency pair of county owned Nevada-California-Oregon Railroad	139,715**
Pennsylvania	Planning	45,980
Rhode Island	Planning	90,000
South Carolina	Planning	100,000
South Dakota	Planning	100,000
Texas	Planning	100,000
Utah	Planning	100,000
Virginia	Planning	77,875
Washington	Planning	100,000
Wisconsin	Planning	100,000
	TOTAL	$11,285,020

*Discretionary application under review

**Entitlement application submitted in March 1986 for carryover funds appropriated prior to Fiscal Year 1986.

SENATOR ANDREWS: Who (for what purpose and for what amount) has applied for the Redeemable Preference share funding?

ANSWER: No formal applications have been submitted for the designated project funds which include (after Gramm-Rudman-Hollings cuts):

Amount ($ Millions	Project
$ 1.818	Columbus and Greenville Railroad
7.656	Gulf and Mississippi Railroad
11.962	Miami Commuter Rail
2.488	Ann Arbor Railroad
2.871	Bangor and Aroostook Railroad
5.264	Chicago and North Western Railroad
$33.060	Total

FRA has received preliminary applications from the Gulf and Mississippi Railroad for the rehabilitation of track in eastern Mississippi; Bangor and Aroostook Railroad to upgrade existing track and yard facilities in order to adequately serve the proposed Sears Island Cargo Port project in Maine; and the South Florida Tri-County Rail Organization for the upgrading of track to accommodate commuter rail service in Palm Beach, Broward and Dade Counties as part of a maintenance of traffic plan during the reconstruction of Highway I-95 and other major north-south roads. An agreement providing $2.4 million in assistance to the Ann Arbor Railroad was executed on September 30, 1985, but we have had no discussions regarding the additional funding designated for the Ann Arbor. Also, we have had no recent contacts from either the Columbus and Greenville nor Chicago and North Western properties, for which funding was designated by Congress.

The Conference Report accompanying the FY 1986 Continuing Resolution also urges priority consideration (no designated funding) for rehabilitation of a Delware Otsego (DO) system line between Warwick, New York, and Butler, New Jersey. The DO has requested that $1.5 million of the $4.1 million of section 505 funds to be provided under the DO/FRA Financing Agreement of September 30, 1985, be reprogrammed for the rehbilitation of the Warwick-Butler line. FRA agreed to that request on March 13, 1986.

SENATOR ANDREWS: What applications for Local Rail Service Assistance were funded in Fiscal Year 1985. (For what amount)?

ANSWER: Local Rail Service Assistance project applications totaling $5,889,629 and planning applications totaling $2,666,815 were funded in Fiscal Year 1985. Lists of the applications and amounts are attached.

LOCAL RAIL SERVICE ASSISTANCE
FISCAL YEAR 1985 PROJECT GRANTS

STATE	AMOUNT	PURPOSE
Arkansas	$178,987	Rehabilitation of East Camden Highland Railroad
Arizona	125,000	Rehabilitation of San Manuel Arizona Railroad
Kentucky	42,305	Continued rehabilitation of Illinois Central Gulf line between Hickman and Dyersburg
Florida	44,900	Substitute service facility at Mabel
Kansas	87,424	Continued rehabilitation of Mid-States Port Authority line
Illinois	266,522	Rehabilitation of La Salle and Bureau County Railroad and Vandalia Railroad
	422,909	Rehabilitation of Milan Branch
Pennsylvania	428,459	Rehabilitation of Erie-Emporium line

Maryland	175,000	Rehabilitation of Cambridge Secondary track
New Jersey	343,770	Continued rehabilitation of New York, Susquehanna & Western Railway
Alabama	336,770	Continued rehabilitation of Huntsville & Madison County Railroad
Texas	518,854	Continued rehabilitation of Oklahoma, Kansas & Texas Railroad
Ohio	200,002	Rehabilitation of Grand Trunk Western's Napoleon to Malinta line
Virginia	175,000	Continued Rehabilitation of Eastern Shore Railroad
Kentucky	82,695	Rehabilitation of Illinois Central Gulf's West Henderson line
Georgia	90,212	Rehabilitation of Dawson to North Albany line
Louisiana	56,104	Continued rehabilitation of Southern Pacific's Raceland Jct. to Jay line
Wisconsin	197,537	Continued rehabilitation of Escanaba & Lake Superior Railroad
Indiana	284,768	Rehabilitation of Conrail's E&W Secondary
North Carolina	223,904	Rehabilitation of Parkton to Red Springs line
California	317,493	Rehabilitation of Eureka Southern Railroad
New Jersey	360,140	Construction of connection between Conrail & New Jersey Transit line near Alpha
South Carolina	175,000	Rehabilitation of Yemassee to Port Royal line
Nebraska	78,153	Rehabilitation of BN line from Burress to Milligan

Maine	38,008	Rehabilitation of Bangor & Aroostook's Limestone Branch
Iowa	722,408	Rehabilitation of Milwaukee Northline
TOTAL	$5,889,629	

FISCAL YEAR 1985 PLANNING GRANTS

State	Amount
Alaska	$100,000
Alabama	$100,000
Arkansas	100,000
Colorado	100,000
Connecticut	100,000
Georgia	100,000
Indiana	50,000
Iowa	100,000
Louisiana	100,000
Massachusetts	100,000
Michigan	100,000
Minnesota	100,000
Mississippi	100,000
Misscuri	100,000
Nebraska	100,000
New Hampshire	100,000
New Jersey	100,000
New Mexico	100,000
New York	100,000
Nevada	100,000
North Carolina	59,745
Ohio	100,000
Oregon	31,000
Pennsylvania	100,000
Utah	100,000
Vermont	51,030
Virginia	75,040
Texas	100,000
Wisconsin	100,000
TOTAL of 29 States	$2,666,815

SENATOR ANDREWS: What projects in what amount were funded in Fiscal Year 1985 in the Redeemable Preference Share program?

ANSWER: During Fiscal Year 1985, FRA committed a total of $16.77 million in assistance under the Redeemable Preference Share program, as follows:

Recipient	Amount ($ Millions)	Project
Delta Transportation Co./ Columbus and Greenville Railway	$ 0.65	Purchase from Illinois Central Gulf Railroad Company 63.9 route miles of rail lines in western Mississippi.
New York Susquehanna and Western Railway Corporation/ Delaware Otsego Corporation	4.10	Rehabilitation of several key elements of the NYS&W in central and southern New York and northern New Jersey.
Detroit and Mackinac Railway Company	3.42	Rehabilitation of a 114-mile segment of the railroad's easterly main line between Bay City and Alpena, Michigan.
Heartland Rail Corporation/ Iowa Interstate Railroad	6.20	Rehabilitation of major segments in Iowa of the former Rock Island main line between Bureau, Illinois, and Council Bluffs, Iowa, purchased by Heartland.
Michigan Interstate Railway Company/ (Ann Arbor Railroad)	2.40	Rehabilitation of MIRC's 47.5-mile line between Toledo, Ohio, and Ann Arbor, Michigan.
Total	$16.77	

SENATOR ANDREWS: Where does the $1.310 million of unobligated balances of Rail Service Assistance come from that is proposed to fund salaries and expenses of the Office of the Administrator in Fiscal Year 1987?

ANSWER: The $1.310 million is planned carryover from the Freight Assistance Support sub-program, within the Contractual Support Program. It is proposed that this be used to fund salaries and expenses in Fiscal Year 1987 of the positions previously funded in the Rail Service Assistance appropriation. These positions will continue to be needed in FY 1987 in order to manage and control over $600 million in outstanding funding; complete the funding and closeout of open agreements; and monitor compliance with agreed upon financing terms and conditions to ensure repayment of the Federal investment outstanding and guard against erosion of public benefits achieved through the assistance provided.

SENATOR ANDREWS: Who had problems with the language of the appropriations bill. FRA or Office of the Secretary?

ANSWER: Problems with the appropriations bill language were raised by the FRA.

SENATOR ANDREWS: In the budget justification (page 12), FRA is proposing to fund all of the Rail Safety cut ($1.2 million) necessitated by Gramm-Rudman-Hollings by taking funds from the State Rail Grants-in-Aid program. Was FRA going to send an official reprogramming request to the Committee? If so, when? If not, why not?

ANSWER: When instructions were received from OMB regarding Gramm-Rudman-Hollings sequestrations, we were advised that the reprogramming process was not available to adjust the across-the-board allocation of cuts. Instructions specified that the proposed adjustments must be fully justified in the narrative justifications of the FY 1987 Congressional Budget and the proposed revised numbers must be included under the "FY 1986 Adjusted" column of the narrative justifications. The changes were reviewed and approved by the Department and OMB. Therefore, under these guidelines, no reprogramming request has been submitted.

SENATOR ANDREWS: Has FRA released any of the FY 1986 funds ($2.3 million) originally intended for the State Grants-in-Aid Program? If so, how much? If not, why not?

ANSWER: No funds have been released. FRA has proposed to Congress that a reprogramming be made to the FY 1986 Railroad Safety State Participation Grants-in-Aid Program to permit the full Gramm-Rudman-Hollings cut of $1,194,000 for Railroad Safety to be applied to the grant program leaving a balance of $1,060,000 remaining in FY 1986. Once a decision on the proposed reprogramming by the House and Senate Appropriations Committees is made, FRA can then determine the total available FY 1986 funding level and award grants after negotiations are completed with the participating States.

SENATOR ANDREWS: Why is FRA proposing to take from the State program rather than live within the Gramm-Rudman-Hollings cut?

ANSWER: FRA is proposing to reduce funding for the State program because it is cost-effective to do so. This action will keep the Federal enforcement force at its current level and minimize the impact on Federal safety inspector hiring and travel allowance. States are committed to the rail safety program with or without Federal funding. Most of the 31 States currently participating would fully fund their State railroad safety program in the absence of matching funds from FRA. It would cost each State $113,000 on average to pick up the Federal share (estimated at $3.5 million in FY 1987).

SENATOR ANDREWS: What other option does FRA have if the Committee does not go along with reprogramming the funds out of the States' program?

ANSWER: A reduction to accommodate the Gramm-Rudman cuts in any area of the Railroad Safety Appropriation other than the Grants-in-Aid for Railroad Safety program would prove highly detrimental to FRA's safety effort. An FY 1986 program level of $2,189,000 for the Grants-in-Aid program would allow Federal funding for approximately 34 percent of the total program costs. The possible "options" in order of FRA's preference are briefly discussed below.

Option 1: Take the full $1,194,000 cut in Safety out of the $1.5 million in State Grants.

This remains FRA's preferred option. Since we have determined that the States would continue to fund the vast majority of the 104 State inspectors now onboard, this cut would in no way be detrimental. The $1,060,000 remaining in the program could be used to fund approximately 16.5 percent of the States' overall program costs.

Option 2: Reprogram R&D funds.

Railroad research and development is an integral part of FRA's safety effort. Funding for this program has been significantly reduced in recent years and is now focused exclusively on safety research items that FRA feels the private sector would not undertake on its own. However, FRA is prioritizing proposed research projects as a second option if the Agency is not permitted to take sufficient funding from the Grants-in-Aid program to accommodate the Gramm-Rudman reduction. In order to reduce R&D funds, language would have to be put in the Committee report to allow FRA to take the Safety cut from R&D.

Option 3: Eliminate ATIP and reduce Grants-in-Aid funding.

The $1.2 million FY 1987 program level for ATIP includes $1.0 million from FY 1986 unobligated carryover. This $1.0 million could be applied to the Gramm-Rudman cut. The remaining $194,000 savings necessary under Gramm-Rudman could be achieved by reducing the Federal share under the State Participation program to approximately 32 percent. Elimination of ATIP would have a serious deleterious effect on FRA's ability to monitor railroad compliance with the Federal Track Safety Standards. If the ATIP program is not curtailed, the geometry vehicle will provide FRA with over 25,000 miles of automated track inspection data in FY 1986 to support our routine inspection activities, the system assessments and other minor assessments.

Option 4: Reduce travel funds for the safety field inspector force.

Congress has recognized the importance of allowing for sufficient travel funds in the Safety Appropriation. In accordance with Congressional requirements contained in the FY 1986 Appropriation bill, there is $2.86 million in the Safety Appropriation in FY 1986 for travel, primarily to permit each FRA inspector to travel 15 days per month. Even if FRA limited inspector travel to 10 days a month for the last 4 months of the fiscal year, the net savings would only be approximately $300,000. Such a travel restriction would result in a very ineffective utilization of inspector resources and an estimated $900,000 would still have to come from the Grants-in-Aid program and/or other sources.

Option 5: Furloughs.

There is $19,353,000 in personnel compensation and benefits in the Office of Safety's operating budget for FY 1986. Projections of personnel compensation and other administrative costs for Railroad Safety shows less than $200,000 savings as a result of attrition and other administrative savings for field and headquarters personnel. In order to effect the balance of the cut, a furlough program reducing the average work week for all Office of Safety personnel to 32 hours beginning in May 1986 would have to be implemented to achieve the necessary Gramm-Rudman savings. A furlough would have serious deleterious effects on the railroad safety program. In addition to the 20 percent reduction in inspections for over 4 months of the year and a delay in the regulatory review program, etc., a furlough would undoubtedly make retention of the existing field force and recruitment of replacements highly unlikely.

Option 6: Take an across-the-board 4.3 percent reduction in the Railroad Safety Appropriation.

	($000) Enacted FY 1986 Appropriations		Required Sequestered Amounts
Railroad Safety	27,764		1,194
Federal Enforcement	22,564		970
ATIP	100	1/	4
Headquarters	3,600		155
Grants-in-Aid	1,500	2/	65

1/ Plus $1.1 million carryover

2/ Plus $754,000 carryover

To absorb a $970,000 reduction in FY 1986 in the Federal Enforcement program not using furloughs would result in the elimination of most of the Federal inspection force. Even if a decision was made in the near future, the required lead time to inform employees in accordance with Federal personnel regulations would mean that layoffs could not be effectuated until the fourth quarter of the fiscal year. The first year savings (FY 1986) accruing from the layoffs would be largely offset by required severance payments and payoffs of accrued annual leave. Based on computations of salary savings versus severance and accrued annual leave payments, it is conservatively anticipated that at least three-fourths of the field staff, a total of 304 positions, would have to be terminated.

Savings on the order of $155,000 could be achieved in the contractual portion of the Office of Safety Headquarters budget by deferring work on the Risk Assessment and Control Program (RACP). In our judgment, such a deferral would be a serious error from a safety planning perspective. No other FY 1986 contractual funds are available within the Safety Appropriation.

The program level of $2,189,000 for the Grants-in-Aid program would allow Federal funding for approximately 34 percent of the total program costs.

SENATOR ANDREWS: Are there funds available within the Office of the Administrator to fund the Railroad Safety sequestration cuts?

ANSWER: No, there are not funds available within the Office of the Administrator to fund the Railroad Safety Gramm-Rudman-Hollings cuts. The Office of the Administrator appropriation is a one year appropriation. In FY 1986, the appropriation of $10,120,000 was reduced by $435,000 pursuant to the Gramm-Rudman-Hollings Act. Of the remaining balance, $9,032,000 funds salaries and related expenses of 161 positions in the Immediate Office of the Administrator, Chief Counsel, Administrative support and the Office of Policy, and $653,000 provides contractual support for economic and financial analyses.

AMTRAK ELIMINATION

SENATOR ANDREWS: How long does FRA estimate it would take to transfer passenger responsibilities to other government or private groups? (please elaborate.)

ANSWER: It is not necessary to transfer operating responsibility to other groups. The current service can be maintained if the States assume financial responsibility. Once Congress agrees on a policy toward Amtrak, however, some time should be allowed for State legislatures to appropriate required subsidy funds and for Amtrak management and labor to agree on a cost cutting strategy. With cooperation and a sense of crisis and urgency, these steps could be completed expeditiously.

SENATOR ANDREWS: What passenger rail service now provided by Amtrak would still be available in fiscal year 1987 if the Amtrak subsidy were eliminated?

ANSWER: The answer depends on the States' willingness to step forward and take over the Federal Government's role as subsidizer as well as on Amtrak's ability to reduce expenses. I am reviewing a series of cost saving initiatives which would, if implemented by management and labor, enable Amtrak to increase its revenues and reduce its expenses. Implementation of these initiatives would reduce Amtrak's subsidy needs so that the burden on States to assume financial responsibility for Amtrak's operations would be as low as possible.

UNION STATION

SENATOR ANDREWS: After receipt of this rental income, what will it be used for? Please elaborate.

ANSWER: All of the revenues from Union Station go first to the Union Station Redevelopment Corporation from which the developer is subleasing the station. The revenue will be used to defray the costs of operating USRC, to pay the rent on the station or to pay the purchase price in lieu of rent, and to provide a return to Amtrak on its $70 million investment in redeveloping the station.

SENATOR ANDREWS: The Federal Government is paying $3.5 million a year for a lease on the Union Station. Does FRA have a projection of when its rental income will cover its lease expense?

ANSWER: At the latest, we project rent from the developer and revenue from the parking garage to cover all expenses, including rent by FY 1993. If we are able to construct more parking spaces than the 1296 currently under construction, USRC's income may rise rapidly enough to cover expenses sooner, depending on the number of spaces built and when they are finished.

SENATOR ANDREWS: Currently the Federal Government pays for rent, maintenace and security at Union Station. When are the maintenance and security functions turned over to the private developers?

ANSWER: At the grand opening of the redeveloped station in the spring of 1988.

SENATOR ANDREWS: When does FRA expect that Union Station will be completely off the Federal budget?

ANSWER: We project that Union Station will be completely off the Federal budget by FY 1993 at the latest. If we are able to construct more parking spaces than the 1296 currently under construction, USRC's income may rise rapidly enough to cover expenses sooner, depending on the number of spaces built and when they are finished.

SENATOR ANDREWS: How many Amtrak passengers annually pass through Union Station?

ANSWER: In fiscal year 1985, Amtrak served 2.5 million passengers at Union Station. Once the parking garage is completed, we expect that number to rise sharply. Surveys have disclosed that a substantial number of passengers do not use Union Station because there is no convenient parking. Maryland DOT also estimates that about 1.7 million rail commuters are served annually at Union Station.

SENATOR ANDREWS: Who will receive the parking fees from the new parking garage? What will receipts from these fees be used for?

ANSWER: Like all of the other revenues from the station, which the Department has sublet to the Union Station Redevelopment Corporation, the revenue from the parking garage will go to USRC. This revenue, together with rent from the developer, will be used to pay USRC's operating costs, to pay rent or purchase costs of the station, and to provide a return to Amtrak on its $70 million investment in redeveloping Union Station.

SENATOR ANDREWS: Does Amtrak receive any fees associated with its $70 million restoration of Union Station? If not, why not? If so, please explain.

ANSWER: Amtrak will receive a return on its $70 million investment in redeveloping Union Station in addition to getting a fine new train station, superior services for its patrons, and parking for its patrons at rates set to encourage train ridership. The precise terms of Amtrak's direct financial return are still being worked out. We will be glad to share those terms with you when they are complete.

SENATOR ANDREWS: The Department is requesting authorization (Section 310 of general provisions) to sell Union Station to the private sector. What would it cost the Federal Government to acquire title to the Station?

ANSWER: On March 5, 1986, the owners offered to sell their interest for a cash payment of $14,912,800. We plan to negotiate with them in the near future. We hope to be able to acquire title on terms more favorable than the options contained in the Government's lease. When we have negotiated terms we think suitable, we will submit them to both the Senate and House Appropriations Committees.

SENATOR ANDREWS: How would the Department recoup the purchase price of the station? (What terms, over what length of time?)

ANSWER: We would like to negotiate a purchase in six annual payments plus assumption of the first mortgage, such as the owners previously offered. We propose to make the payments out of USRC's revenues to the extent possible, so that most of the price would be recouped as it is paid. Payments made before USRC revenues are available can also be viewed as immediately recouped on a net present value basis because they would relieve the United States of the continuing $3.5 million annual rental payment.

SENATOR ANDREWS: What is the advantage of purchasing the station to later resell it, than to continue with the existing arrangement?

ANSWER: As contemplated by the Union Station Redevelopment Act of 1981, the United States must acquire title in order to give the developer long-term tenure so the developer can recover its investment and make an attractive profit. Therefore, we cannot continue the existing arrangement which would provide the developer only 15 years of occupancy.

The reasons for reselling the station are entirely independent of the reasons for buying it. The Administration believes it would not be consistent with the President's privatization initiative for the Government to own Union Station over the long term, once the goals of the Union Station Redevelopment Act of 1981 have been achieved.

SENATOR ANDREWS: Couldn't the Department assign its lease rights to a private developer?

ANSWER: The lease is silent concerning whether it is assignable by the United States. Assuming for the sake of discussion that the lease is assignable, however, assigning the lease to the developer would not accomplish the purposes of the Union Station Redevelopment Act of 1981. The economic feasibility of the project for the developer is based upon USRC and the Government undertaking the risk and expense of rehabilitating the building and the expense of acquiring the owners' interest so that the developer need be at risk only for $30-35 million needed to prepare the rehabilitated building for tenants. The retail development, alone, will not generate enough cash flow for many years to pay the rent to the owners or to buy them out as well as pay the developer's other expenses and an attractive return on investment. The parking garage, which will generate substantial additional revenue, is not included in the lease to the developer.

CONRAIL LABOR PROTECTION

SENATOR ANDREWS: On February 5 the Administration proposed a deferral in 1986 of $4.565 million in authorized Conrail labor protection funds. Available Conrail labor protection budget authority entering the year was approximately $7.2 million. What dollar level of labor protection claims has the Federal Railroad Administration (FRA) received in FY 1986? What dollar value of claims has FRA honored?

ANSWER: The Railroad Retirement Board is responsible for receiving and processing Conrail labor protection claims. FRA, using funds appropriated for labor protection, transfers such funds as are necessary to the Retirement Board. From October 1, 1985 through March 31, 1986, the Retirement Board paid out $5.346 million in Section 701 labor protection benefits. In addition, the Retirement Board had 965 unprocessed claims on hand at the end of March. (At the end of March, one year ago, there were 1,255 claims awaiting processing.) These claims will result in additional payments of approximately $900,000.

SENATOR ANDREWS: Are labor protection claims still being received by FRA?

ANSWER: The Retirement Board is currently receiving and processing approximately 1,000 claims per month for Section 701 labor protection payments. As indicated above, the Section 701 Conrail Labor Protection Program is administered by the Railroad Retirement Board. Employees of Conrail submit their individual claim forms directly to the Retirement Board.

SENATOR ANDREWS: On what grounds did the Administration propose deferral of this funding if legitimate claims are still being received?

ANSWER: Section 701 was established in 1981 to provide limited benefits to employees of Conrail who are deprived of employment as a result of actions flowing from the Regional Rail Reorganization Act or the Northeast Rail Service Act. Prior to enactment of Section 701, Conrail could not make necessary adjustments in its workforce without incurring labor protection costs that would more than consume the saving being sought. Since then Conrail's financial situation has improved significantly. Labor protection is a cost of doing business in the railroad industry which properly should be borne by the railroad rather than the Federal government. At the time the deferral was proposed, monthly expenditures were approximately $500,000 per month and the available funds were estimated to be sufficient for the rest of FY 1986. Sufficient notice was given to make arrangements to shift the financial responsibility to Conrail starting in FY 1987. Recently, monthly benefit payments have increased significantly. February costs were $990,000 and March costs were $1,237,000. This compares to expenditures of $570,000 in January, $568,000 in December, $239,000 in November and $440,000 in October.

SENATOR ANDREWS: If all labor protection claims received in 1986 to date had been honored, what would be the remaining unobligated balance?

ANSWER: The number of unprocessed claims, as of March 31, was 965. Our best estimate is that it would cost approximately $900,000 to liquidate these claims. The Retirement Board reports that they have $2.1 million available to pay benefits. Therefore, if all claims received to date were processed, then the balance of funds remaining would be $1.2 million.

SENATOR ANDREWS: If it is assumed that Conrail is not sold by the close of FY 1986, what level of additional labor protection claims would you expect to receive?

ANSWER: The volume of labor protection claims varies with changes in the size of the Conrail workforce. Should Conrail continue to reduce its workforce at the current rate, then the claims will continue at the comparatively high level of approximately $1 million per month. On the other hand, if Conrail's overall employment level becomes more stable, then monthly costs would likely be $500,000 per month or less.

SENATOR ANDREWS: Your FY 1987 budget requests no additional funding for labor protection because it is assumed that Conrail will be returned to the private sector by then. If it were assumed that Conrail is not returned to the private sector in 1987, how much labor protection funding do you estimate would be necessary to honor all claims?

ANSWER: Responsibility for labor protection should be transferred to Conrail prior to FY 1987, irrespective of the timing of the sale of the Government's ownership interest in the railroad. Assuming Conrail continues the existing Section 701 labor protection program in substantially its present form, the cost would be approximately $8.5 million annually, based on the claims experience over the most recent six-month period.

SENATOR ANDREWS: In the Conference Committee report accompanying the fiscal year 1986 appropriations, the Committee requested a report on Conrail assuming full financial responsibility for labor protection payments. (Due March 1, 1986) What is the status of that report?

ANSWER: FRA requested an extension of the deadline by letter to the Appropriations Subcommittee Chairmen, dated February 28, and we were prepared to discuss the status at the hearings. We have initiated discussions with Conrail on the transfer of financial responsibility. Based on these initial discussions we anticipate that a report will be submitted in the near future that recommends a plan of transfer, and which has the support of both FRA and Conrail.

SENATOR ANDREWS: When will FRA officially report to the Committee on the Sections 701 and 702 labor protection programs?

ANSWER: Recognizing the limited availability of funds, we are moving as quickly as is feasible to reach an understanding with Conrail. Once we have agreed on a plan and the steps necessary to implement it, we will promptly report to the Committee.

SENATOR ANDREWS: Have FRA and Conrail begun discussions as directed by that conference committee report? If not, why not? If so, what have been the results of those discussions to date?

ANSWER: Our first meeting with Conrail representatives on this subject was held on April 14 in Washington. We reviewed the status of the program; we agreed on the amounts spent to date and near-term projections for further benefit payments; and we discussed several alternative arrangements for continuing the program in the absence of Federal funding. We plan to meet before the end of April to explore more thoroughly the options which were considered, and to define the tasks required, including necessary Congressional concurrences, to implement a shift in financial responsibility.

SENATOR ANDREWS: What are the outstanding fund balances in the Section 701 program and the Section 702 program?

ANSWER: As of April 1, 1985, $11.13 million remains unexpended in the Section 702 account. According to Conrail, it is estimated that $10 million will "buy out" the remaining excess second brakemen and firemen on the Conrail system. Of the $100 million appropriated for Section 702, FRA has made reimbursement to Conrail for $88.87 million in separation payments made to 3,595 employees who voluntarily applied.

As of April 1, $2.1 million remains available at the Railroad Retirement Board for the Section 701 program. There are no outstanding fund balances in the Section 701 account at FRA. FRA has transferred $137,435,000 to the Railroad Retirement Board for the purpose of funding administrative costs and labor protection payments under the Section 701 program. Additionally, in FY 1982, $600,000 was separately appropriated and spent on administrative costs. The transfers have been made as follows:

FY 1982	$55,000,000
FY 1983	$50,000,000
FY 1984	$20,000,000
FY 1985	$10,335,000
FY 1986	$ 2,100,000

Through March 31, 1986, $2.1 million has been expended by the Retirement Board on administering the Section 701 program, and $133.8 million has been paid in labor protection benefits to eligible Conrail employees. Of $165 million originally appropriated for the Section 701 program, $137.4 million has been provided to the Railroad Retirement Board, $23 million has been transferred out of the Section 701 program, and $4.6 million has been deferred in FY 1986.

SENATOR ANDREWS: Can these fund balances be used for other purposes? If so, how would that be accomplished?

ANSWER: Yes, these fund balances could be used for other purposes. The full $100 million appropriated for Section 702 has been obligated with Conrail. In order to utilize these funds FRA would have to deobligate a portion of the unexpended balance with Conrail, and we would need Appropriation Act authority to transfer the funds since they were appropriated under separate appropriation headings and Treasury accounts.

Available funds for Section 701 will be expended by the end of FY 1986. The $4.65 million in Section 701 funds, deferred in FY 1986, have been proposed for transfer to Washington Union Station program for rent, maintenance and security in 1987.

SENATOR ANDREWS: What does FRA estimate will be the balances available in Section 701 and Section 702 at the end of Fiscal Year 1986?

ANSWER: Conrail has told FRA that they will use approximately $10 million of the $11.13 million in unexpended balances on hand at FRA to conclude the Section 702 Conrail Workforce Reduction Program this fiscal year.

The recent increase in Section 701 monthly payments means that available funds will be exhausted prior to the end of the fiscal year. We have begun meeting with Conrail representatives to resolve the Section 701 funding issue in a manner that is consistent with the directive of the Conferees to transfer the financial responsibility for labor protection to Conrail.

CONRAIL SALE

SENATOR ANDREWS: Mr. Riley, what is the status of the Justice Department's review of the Conrail sale. Specifically, has the Justice Department's outside consultant (R.L. Banks and Associates) made a report of their findings?

ANSWER: A contract has been signed by the Department of Justice and work has begun. R.L. Banks has not yet made a report of its findings.

SENATOR ANDREWS: What is the due date of that report? It is the Committee's understanding it would be fifty days from February 14th.

ANSWER: The terms of the contract call for such a delivery date on the assumption that all necessary data would be available at commencement of the contract. It is our understanding that the Department of Justice (DOJ) anticipates that R.L. Banks will provide its report by mid June. Subsequently, the Antitrust Division will make its recommendation to the Attorney General.

SENATOR ANDREWS: What is the cost of that study and who is paying for it?

ANSWER: The contract between the Department of Justice and R.L. Banks totals about $350,000. DOJ is paying for the study, however, the Department of Transportation is reimbursing Justice through a formal reimbursable agreement for which FRA has obligated the necessary funds. The funds obligated by FRA were made available from carryover contract funds of the Northeast Rail Studies Program which were appropriated specifically to perform studies and other support services necessary for the sale of Conrail. While DOT and DOJ have a reimbursable agreement, DOT has no contract oversight rights.

SENATOR ANDREWS: FRA expects to perform a number of activities related to the Conrail sale (page 13 of prepared statement) including:

- monthly monitoring of operating and financial performance;
- periodic assessment of cash accounts;
- review of track and equipment maintenance expenses;
- capital improvement program compliance;
- asset disposition;
- dividend policy;
- divestiture and diversion trend assessments; and,
- service continuation.

If Conrail is not sold, what would these people be doing within FRA?

ANSWER: The Conrail group is essentially composed of five employees with financial and economic expertise borrowed from other areas within FRA in order to work on the Conrail sale. When the sale is completed they will return to their former positions providing policy support and analysis of ICC proceedings, legislative initiatives, structural and traffic analysis, comparative analysis of selected railroads, and financial monitoring (including Conrail) of the industry. If Conrail is not sold, the Conrail group would remain to support the Secretary in her role as USRA Board member and chief spokesperson for the Administration on transportation issues including any issues related to Conrail from legislative proposals, to policy initiatives and financial/ economic impact assessments.

SENATOR ANDREWS: If Conrail were sold as assumed in the Administration's budget, what amount of FRA's resources would be devoted to follow-up after the sale? (in dollars, and personnel, by office, by activity).

ANSWER: If Conrail were sold, essentially as proposed by the Administration today, we estimate the following personnel and dollar costs associated with oversight/ monitoring activities (the dollars include salaries, benefits and all other support costs):

Immediate Office of the Administrator (Administrator, Deputy, Special Assistant)	1/2 FTE	$45,000
Chief Counsel	1 FTE	$75,000
Office of Policy	2 FTEs	$120,000
	3-1/2 FTEs	$240,000

SENATOR ANDREWS: Are any of these follow-up activities to be performed by outside consultants or by contract. If so, which ones?

ANSWER: At this time we do not anticipate any need for outside consultants or contractors. Financial, economic and operational activities can be readily assessed using in-house resources including computer support within FRA's Office of Policy. Physical inspection of plant, if warranted, could be done by in-house staff including use of FRA safety field staff.

SENATOR ANDREWS: Why doesn't the Administration (FRA) privatize the financial analysis and have an independent private auditor perform these functions?

ANSWER: We intend for the post-sale analysis to be part-time work for those employees with appropriate responsibilities and specialties who are basically working full time now on the Conrail sale. Monitoring Conrail post-sale will fit in very conveniently as a part-time responsibility for our Industry Finance and Operations Division which monitors the financial performance of the railroad industry. The expertise is already in place and no additional expense will be incurred to conduct post-sale monitoring.

SENATOR ANDREWS: Please list the activities (page 13 of prepared testimony) with the sale covenants that require the activities to be performed.

ANSWER: As you will notice, there is some overlap in the covenants and activities.

MOI COVENANT		ACTIVITY
12(a)(i)	Financial Statements	Monthly monitoring of CR's operating and financial performance
(ii)	Conduct of Business; Maintenance of Existence and Abandonments	
(iii)	Property	
(iv)	Insurance	
(vi)	Indebtedness	
(vii)	Books and Records	
12(b)(vii)	Transactions with Affiliate	
12(a)(i)	Financial Statements	Periodic assessment of its cash accounts, including cash flow adequacy and quality
12(b)(v)	Use of Conrail Cash and Assets	
12(b)(vi)	Conrail Dividends and Distributions	
12(a)(iii)	Property	Review of its track and equipment maintenance expenses
12(a)(v)	Capital Spending	Capital improvement program compliance

12(b)(i)	Liquidation or Dissolution of Conrail	Assess dispositions and acquisitions
12(b)(ii)	Sale, Lease, Transfer or Other Disposition of Conrail Assets	
12(b)(iii)	Mergers or Consolidations	
12(b)(iv)	Anti-Dilution, Holding Period	
12(b)(vi)	Conrail's Dividends and Distributions	Dividend policy
16(c)	Waiver	Requests for waiver
9(e)	Divestiture of Rail Tracks and Facilities	Divestitures and diversion trend assessments
12(b)(i)	Liquidation or Dissolution of Conrail	Service continuation
(ii)	Sale, Lease, Transfer or Other Disposition of Conrail Assets	Any other requirements imposed later by Department or Congress
12(a)(x)	Compliance Certificate	All activities
12(a)(xi)	Notice of Default	

GRANTS-IN-AID FOR RAILROAD SAFETY

SENATOR ANDREWS: In FY 1987, FRA proposes to eliminate the Federal cost-sharing portion of the State inspection program. Your budget justification states that the States are committed to this program with or without Federal funding. What decrease in the number of State safety inspectors do you expect to result from the elimination of Federal funding for this program?

ANSWER: FRA estimates that most States (28 out of the current 31) would continue to participate in the rail safety program with 70 of the current 104 inspectors even without Federal matching funds.

SENATOR ANDREWS: How do you justify your request for additional Federal positions (Deputy Regional Administrators) to direct safety operations while at the same time eliminating grants that assist in paying the salaries and expenses of State rail safety inspectors?

ANSWER: Regarding the FRA field forces, the five regions with the greatest railroad safety activity need Deputy Regional Directors. The positions will be used to improve field operations by having a regional manager available to focus on

day-to-day duties. Improvements are expected with the deputy positions in such areas as:
(1) conducting assessments and safety conferences,
(2) working with senior level railroad executives and national rail labor representatives, and
(3) preparing the annual National Inspection Plan which includes coordination with senior level State officials from States participating in the Grant-in-Aid program. These positions are needed whether a State Participation program is funded or not.

Since our original request for these Deputy Regional Director positions, we have conducted a detailed study to determine the optimal level of safety enforcement resources. This study, the results of which are explained in detail in answer to a later question, confirmed that the best safety results would be obtained with a field staff size of 330, versus our current authorized level of 325.

States are committed to the rail safety program with or without Federal funding. Most of the States currently participating would fully fund their State railroad safety program in the absences of matching funds from FRA.

DEPUTY REGIONAL SAFETY DIRECTORS

SENATOR ANDREWS: Your budget requests the addition of six professional positions for Federal enforcement of regulations and standards in FY 1987 - A training specialist dealing with the problem of alcohol and drug abuse and five Deputy Regional Directors. A similar request was made in the FY 1986 budget. That request was deferred without prejudice pending completion of the Safety Inspector Staffing Standards studies that the House Appropriations Committee directed be performed by the Office of the Secretary. Has this study been completed?

ANSWER: The Office of the Secretary's study is scheduled for completion and distribution on June 1, 1986.

However, The six additional positions being requested are not for additional inspectors. Preliminary results from a staffing optimalization model currently under development at FRA verify the need for the present level of inspectors and suggests that additional inspector resources may be warranted. The sixth requested position is for an alcohol and drug training specialist necessitated by our new alcohol and drug control rule, an area beyond the current scope of the optimalization model.

SENATOR ANDREWS: Please summarize for the record its major findings. In your opinion, do the study conclusions verify the need for additional field safety personnel? Please elaborate.

ANSWER: As stated in the previous answer the study is not yet completed.

SENATOR ANDREWS: What shortcomings exists in the rail safety program in FY 1986 as a result of the deferral of the request for additional personnel?

ANSWER: There are really two issues here. Of the six additional personnel being requested, one is for an alcohol and drug training specialist and the other five are for Deputy Regional Directors.

The lack of an alcohol and drug training specialist has made the smooth implementation of the new alcohol and drug rule more difficult. FRA has sponsored around the country five two-day conference in order to educate the industry on the specifics of the FRA rule. However, given the technical complexity of our rule and the ongoing need for FRA to carry-out compliance reviews on the industry, it is essential that we have an in-house expert who on a daily basis can provide both training expertise and knowledge of alcohol and drug use and abuse necessary to effect a smooth transition of the rule. Other FRA personnel have attempted to fill this void, but this can be inefficient as the employee must find out the answer and then relay it back to the industry. It also draws FRA personnel away from their normal duties and can leave the industry without specific and highly knowledgeable advice when it is needed.

The lack of the requested five Deputy Regional Directors has slowed the progress FRA may have achieved with these positions. Over the past few years, FRA has increased its cooperative efforts with the industry with such tools as system assessments. These assessments often require a pooling of resources from among several regions and disciplines. Such efforts require close supervision and coordination by management. With the requested management positions, FRA may have been able to conduct more extensive and productive assessments and more timely results.

In summary, the increasing demands being placed on the Regional Directors of the five regions with the most activity have seriously hampered their ability to handle both the day-to-day management duties and also take advantage of highly successful tools such as system assessments. The addition of the requested positions would greatly increase the productivity of the safety enforcement effort.

RAIL SAFETY

SENATOR ANDREWS: The Safety Review Task Force found that the largest number of safety inspectors are in the power and equipment area, which is the area with the lowest percentage of accidents. Why the imbalance?

ANSWER: Two points are important here. First of all, FRA seeks to get the maximum safety effect for its expenditure of resources. Since the performance of equipment is strictly determined by its mechanical condition, equipment failures are far more subject to control by inspection than human performance, which is far less predictable. Also, mechanical equipment usually fails gradually under normal operating conditions, and careful periodic inspections can discover the warning signs before failure occurs. This is not true for an employee, who can function perfectly for long periods and then fail unpredictably and often without explanation.

It should also be noted that the inspector disciplines are not as mutually exclusive as their titles make them sound. The great majority of their technical expertise is shared, with each inspector having an area of expertise that he or she is particularly expert. Thus, Operating Practices inspectors know a great deal about equipment and are empowered to cite violations in that area. Much of this "crossover" enforcement among the disciplines does take place, and it is an essential element of the inspection process.

SENATOR ANDREWS: What has FRA done to change the allocation of Federal inspectors since the October 1985 report?

ANSWER: Since the Task Force report, FRA has cancelled a position opening in Los Angeles for a Motive Power and Equipment inspector and readvertised the position as an Operating Practices inspector.

SENATOR ANDREWS: In addition, the same review found that 18.2 percent of the inspector work force is in the operating practice area where 28 percent of the accidents occur. What has FRA done to correct this imbalance?

ANSWER: Using the inspector allocation study as a guideline, we will gradually adjust positions as the opportunities occur through retirements and resignations. However, it should be pointed out that FRA will be using more than just the number of accidents to determine the need for inspectors in the various disciplines.

SENATOR ANDREWS: Does the number of State inspectors influence the allocation of Federal inspectors in a State or a region? If so, how? If not, why not?

ANSWER: We do take State inspectors into account, but not on a one-to-one replacement basis. We staff each region on the basis of our perception of the work to be done and the staff currently available to accomplish that work. The extent of the State's involvement in rail safety enforcement, therefore, influences our perception of the need for Federal forces. We do not, however, determine a particular combined staff level such that if a State hires an additional inspector, we fire or reassign one of ours.

In addition, one of the major responsibilities of the Deputy Regional Director positions that have been requested for the last two years would be to improve the coordination between the Federal and State forces such that, in the future, further integration of the two groups could be achieved and that the extent of State participation could be considered more directly in the planning of Federal staffing decisions.

SENATOR ANDREWS: What has the FRA done to develop and implement a nationwide inspector allocation plan based on accident rates and projections of future risk? (page 17 of Report of the Safety Review Task Force on Federal Railroad Administration Safety Program).

ANSWER: FRA has conducted a detailed study of inspector allocation as part of its study of inspector staffing. The allocation study allocates inspector resources among the eight FRA regions based on relative risk as measured by nine factors, one of which is mainline accidents. In addition, casualties, employees, carloads of hazardous materials, passenger traffic, population density, tons, railroad mileage, and geographical size in square miles are also considered. FRA combines these nine factors into a relative risk measure.

The FRA study has been completed recently and delivered to the Office of the Secretary as input into its study of safety inspector staffing. There are no immediate plans for implementation, but the study's suggestions are being carefully considered. It must be emphasized that the changes recommended by the study are very minor. The study concluded that 330 rather that 325 inspectors are needed. In addition, the study found that for the current staffing level, 92 percent are in the correct region, and 98 percent are in the appropriate discipline. Thus, the study has not recommended drastic changes, and it is not FRA's intention to blindly follow the study's recommendation, but rather to give them consideration subject to management discretion.

At this point in time, only historical data has been used for the allocation study. This has allowed comparisons between known inspector resource levels, known rail activity levels, and known consequences in terms of accidents, casualties and other factors. The procedures developed, however, could certainly be used with projected data.

SENATOR ANDREWS: Which region had a disproportionate number of rail-highway crossing accidents versus the number of crossings? Has FRA been able to determine the reason(s) for this disparity?

ANSWER: For 1985, the number of accidents per 100 at-grade (level) crossings for the eight FRA regions is as follows:

Region*	Accidents/100 Crossings	Rank
1	1.4	7
2	2.2	5
3	2.4	2
4	2.4	3
5	3.0	1
6	1.5	6
7	2.3	4
8	1.0	8

FRA is reviewing these ratios as well as those for individual States and railroads. Factors which will be assessed include the numbers of automated warning devices, the numbers of grade separations (bridges over or under tracks), highway and railroad traffic, population densities, extent of public education and law enforcement programs, and the progress of on-site improvement programs.

*Region 1 - CT, MA, ME, NH, NJ, NY, RI, VT
Region 2 - DC, DE, MD, OH, PA, VA, WV
Region 3 - AL, FL, GA, KY, MS, NC, SC, TN
Region 4 - IL, IN, MI, MN, WI
Region 5 - AR, LA, NM, OK, TX
Region 6 - CO, IA, KS, MO, NE
Region 7 - AZ, CA, NV, UT
Region 8 - AK, ID, MT, ND, OR, SD, WA, WY

SENATOR ANDREWS: In your prepared statement you mentioned that rail-highway crossing and trespasser fatalities continue to comprise over 90 percent of all railroad related fatalities. What efforts are underway in response to this continuing problem?

ANSWER: Last summer, following a pair of safety inquiries, the FRA issued a report entitled "Rail-Highway Crossing Safety Report." In this report the FRA recommended a multi-faceted program to address rail-highway crossing safety. (A copy of the report is attached.) The following paragraphs describe activities proposed in the July 1985, report, and underway at this time.

FRA's involvement in Operation Lifesaver activities continues to expand. We believe that educational programs are the most effective means of alleviating trespasser and crossing related fatalities. During 1985, FRA personnel made over 1,000 Operation Lifesaver contacts or presentations and reached over 100,000 people. The presentations made at schools and civic groups also emphasized the dangers of trespassing on railroad property. A portion of the National Operation Lifesaver Symposium held in June 1986 will also be dedicated to trespasser countermeasures, and FRA personnel will continue giving Operation Lifesaver presentations in 1986.

We are planning to develop educational materials specifically oriented to drivers of school buses and trucks carrying hazardous materials and construction equipment. In addition, material will be developed to alert the law enforcement community of rail-highway crossing hazards and the most common causes, so that enforcement can be enhanced. FRA field personnel have already approached sheriffs, police chiefs, mayors and judges in efforts to promote local enforcement programs. Model efforts have been accomplished in Terre Haute and Mishawaka, Indiana, in cooperation with railroad and city authorities, the Indiana State Operation Lifesaver Council and the FRA.

FRA is updating analytical support available to States and railroads. The DOT (a combined FHWA, FRA and RSPA effort) has developed and made available to States and railroads computer based accident prediction formulas and a resource allocation procedure. These analytical tools, along with extensive DOT crossing accident and inventory files, are utilized by many State and railroad program managers in their decision making processes for crossing selection and program emphasis. Some of the statistics utilized are based on work accomplished several years ago when more accidents were occurring at more crossings with less automated warning devices, and before Operation Lifesaver spread nationwide. The data and work are now being updated.

Involvement in the Secretary's Low-Cost Corridor Initiative project has been at a high level. FRA has worked closely with FHWA in establishing a team to promote the concept of reviewing all public crossings along a selected railroad corridor for appropriate improvements at each with special emphasis on low-cost options. The format for this project, known as "Demonstration Project No. 70 - Railroad Crossing Corridor Improvements," is to provide a one-day seminar to any requesting State, which may then be followed by a two or three day on-site field inspection of a corridor with selected State, railroad, and local officials. Emphasis is placed on law enforcement at crossings and law enforcement personnel have usually attended the seminars and/or corridor reviews.

Seminars have been given in the following fifteen States: Alaska, Arizona, California, Nevada, Utah, Kansas, Iowa, Louisiana, Florida, Kentucky, Ohio, West Virginia, Virginia, Pennsylvania, and Maryland (see attached map). Following these seminars, corridor reviews have been conducted in eight States: Alaska, California, Utah, Iowa, Louisiana, Florida, Ohio, and West Virginia. Six States will be chosen for the demonstration project. Their procedures, methods of selection, improvement decisions, and results will be presented in a report for distribution to all States by August or September of 1986.

FRA has actively participated in each of the seminars and corridor reviews, and is participating in preparation of the final report. FRA has had a unique opportunity to present the need for and usefulness of the National Rail-Highway Crossing Inventory and Accident/Incident data files for use in selection of corridors for review. With the importance of the National Inventory recognized, many States and Railroads have been placing renewed emphasis on updating records in the file. These updates have increased about 40 percent over the recent years. Additionally, States are becoming more aware of the data and printout formats available for planning purposes and cost-benefit allocation of resource.

[CLERK'S NOTE: Due to the size of the document, it will be retained for review in the subcommittee files.]

SENATOR ANDREWS: What is the total funding (public and private) for the Operation Lifesaver program in 1986?

ANSWER: Total funding for the Operation Lifesaver program in FY 1986 is approximately $90,300.

SENATOR ANDREWS: How much funding for the Operation Lifesaver program was provided by FRA in 1986?

ANSWER: FRA is providing $2,750 as partial funding for the National Operation Lifesaver

Symposium to be held the week of June 17, 1986, in St. Louis, Missouri.

SENATOR ANDREWS: Given the enormous potential of an educational program such as Operation Lifesaver to save lives, why has DOT provided only non-monetary support?

ANSWER: Because of the success of this State/local/industry program, the Department has not seen the need to fund Operation Lifesaver directly. However, the Department has provided monetary support. In 1984, FRA and FHWA partially funded the National Operation Lifesaver Symposium and are partially funding the 1986 National Conference. In FY 1985, FRA spent approximately $8,000 on printing pamphlets, posters, and notices; having pens and movies made; and mailing materials. At the present time, FRA is having discussions with the National Safety Council on materials needed for Operation Lifesaver and possible FRA sponsored research into the development of these materials.

SENATOR ANDREWS: Provide the Committee a comparison of number of inspectors by region versus the number of accidents by region, the number of accidents by cause by region, and the allocation of inspectors by the five disciplines by the eight regions.

ANSWER: The attached tables provide the required information. Please keep in mind, however, that we believe that inspector allocation should not be based solely on the number of accidents, but on relative risk exposure. In FRA's recent study of the subject (explained in detail earlier), relative risk exposure is measured by a combination of nine factors, the number of accidents being one of those factors. The other eight factors used to allocate resources among the regions are casualties, number of rail employees, carloads of hazardous materials, passenger traffic, population, tons, railroad mileage, and size of the region in square miles.

The FRA study has been sent to the Office of the Secretary for inclusion in the Secretary's upcoming report to Congress on safety inspector staffing for all modes of transportation. The Secretary's study is due to Congress on June 1, 1986.

1985 Train Accidents/Causes by Regions

Region	Number Inspectors[1]	Total Number Accidents	Human Factors	Mechanical and Electrical Failure	Defects	Other
1	36	236	50	45	87	54
2	56	413	122	70	140	81
3	47	390	141	68	115	66
4	41	749	269	97	254	129
5	43	612	155	91	289	77
6	39	480	136	72	202	70
7	22	274	54	55	105	60
8	25	264	66	59	86	53

[1] The eight Regional Directors and vacancies are not included.

Federal Inspectors by Discipline/Region

Region	Motive Power and Equipment	Operating Practices	Track	Signal & Train Control	Hazardous Material	Totals[1]
1	12	7	9	4	4	36
2	20	13	10	6	7	56
3	15	7	13	6	6	47
4	16	7	9	6	3	41
5	13	7	11	6	6	43
6	14	8	10	4	3	39
7	6	5	4	4	3	22
8	6	5	7	4	3	25

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[1] The eight Regional Directors and vacancies are not included.

RAIL SAFETY - CIVIL PENALTIES

SENATOR ANDREWS: What is the present backlog of civil penalty cases now pending before FRA?

ANSWER: Any answer to this question requires some explanation of the enforcement process administered by FRA.

On any given day there are violations at every stage of what is a continuous process. That is, inspectors are investigating, gathering evidence, submitting violation reports for typing and review by their supervisors; the Office of Chief Counsel is receiving reports and handling them clerically (nearly 6,000 in 1985), including logging them into our violation tracking system developed in 1983; law clerks are administratively processing violation reports, aggregating them into enforcement cases, and initially reviewing them for legal sufficiency; attorneys are reviewing cases and signing them for transmittal to the respondent or for return to the field if found to be legally insufficient or if additional work is needed; railroads and shippers are acknowledging receipt of claims and conducting their own investigations of the charges; FRA attorneys are conducting negotiations with respondents based on any legal defenses or mitigating circumstances they present and on FRA's assessment of the worth of the case based on such factors as the safety hazard, severity, and remedial measures taken; the parties are making offers and counteroffers of settlement and settlements are being reached; and, occasionally, the agency is engaged in litigation over a claim.

A "backlog," i.e., work-in-progress, always exists at every stage of the process since FRA staffing does not permit same-day handling of violation reports and since resolution of pending claims depends on the cooperative effort of the respondents. However, FRA implemented its computer-based violation tracking system, in part, to enable it to monitor the process at certain key points. For example, as of April 10, 1986, FRA has pending against railroads and shippers of hazardous materials civil penalty claims totalling $9,950,450. The majority of those claims are under active negotiation at this time. Another key factor FRA monitors is the number of violation reports received by the Office of Chief Counsel but not yet presented to the respondent. That figure, as of February 28, 1986, was 4,593. Those pending reports break down as follows:

Accident Reporting	11
Freight Car Safety Standards	1,032
Safety Glazing Standards	17
Hazardous Materials Regulations	230
Hours of Service	168
Hours of Service Recordkeeping	35
Locomotive Inspection	295
Rear End Marking Device	1,110
Railroad Operating Rules	209
Radio Standards and Procedures	8
Safety Appliance	1,310
Signal Inspection	70
Track Safety Standards	98

SENATOR ANDREWS: How does this compare with the end of 1983, 1984, and 1985?

ANSWER:

	Outstanding Claims	Violation Reports
1983	$15,509,850	not available
1984	$ 6,951,850	not available
1985	$ 9,862,550	3,972

These figures, of course, can vary widely. As a result of our concentrated effort to close out older cases during 1984, we reduced the claim backlog to $4,221,700 as of March 11, 1985. In December 1984, the Office of Chief Counsel instituted, effective in 1985, an annual cycle whereby, with respect to the railroads and shippers for which each attorney is responsible that year, he or she is to (i) review and transmit all claims received during that year, and (ii) negotiate and settle, by December 31, all cases received during the previous calendar year.

These efforts, i.e., the introduction of the computer-based violation tracking system in 1983, the liquidation of a large number of especially old claims in 1984, and the institution of the annual cycle procedure in 1985, have had many salutary effects on the enforcement process. However, the average number of violation reports received from the field each month has increased substantially during the past three years, tripling from 165 to 506. The result is that despite our substantial improvements to the process, the Office of Chief Counsel staff continues to be pressed.

SENATOR ANDREWS: What is the expected backlog at the end of 1986?

ANSWER: No such speculation can be made intelligently since the result depends on the availability of personnel, the rate of incoming violation reports, the cooperativeness of respondents, and the results of our current efforts to further streamline the enforcement process. Moreover, success in rapidly processing and transmitting violation reports received will lower the number of reports awaiting transmittal (provided the rate of receipts has not increased again), but that success also has the effect of increasing the dollar value of all outstanding safety claims. Similarly, concentration on closing outstanding claims can result in relative inattention to incoming reports, causing the number pending to rise. Our current practice is to conduct a balanced process, which under current circumstances may result in relative backlog growth of (i) reports waiting to be reviewed and transmitted at the end of the year when attorneys are most busy with settlement negotiations and (ii) cases to be settled in the beginning of the year when attorneys are most busy with violation report review and transmittal.

SENATOR ANDREWS: FRA collected over $6.1 million in civil penalties in 1985. In what areas were these penalties assessed (i.e., for what types of violations)?

ANSWER: Civil penalties were assessed for virtually all types of rail safety violations. Attached is a copy of the Chief Counsel's Safety Division's annual report of cases closed during fiscal year 1985. That report shows the type of each case closed during that year.

[CLERK'S NOTE: Due to the size of the document, it will be retained for review in the subcommittee files.]

SENATOR ANDREWS: How many settlements did this represent?

ANSWER: As the annual report shows, 945 cases were settled during fiscal year 1985. Of those, 868 were cases against railroads and 77 were cases closed against shippers of hazardous materials.

SENATOR ANDREWS: How many cases were liquidated in fiscal year 1983, 1984, and 1985? How many will be liquidated in 1986 and estimated for 1987?

ANSWER:

1983 - 412
1984 - 658
1985 - 945

This figure is not particularly meaningful and cannot be predicted. A "case" is an administratively convenient aggregation of "violation reports" of one type (e.g., track) that themselves include one or more individual instances of alleged noncompliance. As you will note from the attached annual report, the size of a single case last year ranged from one claim to 467 claims.

Under our annual cycle, we intend to make our best effort to close out, by the end of 1986, all 5,972 violation reports received during 1985 and some portion of those reports received and transmitted during the first half of 1986. We will make the same effort in 1987.

SENATOR ANDREWS: What's the total amount of resources FRA expended in this area in 1984 and 1985, estimated for 1986 and planned for 1987? (Provide dollars and F.T.E. personnel).

ANSWER: Assuming the "area" to be "civil penalties," no good answer can be given. Virtually every member of the Office of Safety staff, including the 50 in Washington headquarters and the 325 in our eight regions contribute to the civil penalty process. However, the great majority of our inspection activity does not result in the assessment of civil penalties.

Similar difficulty is encountered in the Chief Counsel's Safety Division. The same safety lawyers who review and settle civil penalty claims also (i) conduct the agency's safety litigation (this non-civil penalty litigation has absorbed significant amounts of attorney time during the past four years), (ii) handle the agency's safety rulemaking activities, (iii) handle the agency's safety legislative work, and (iv) provide legal counsel to the Office of Safety and its inspectors. Much of their time is also occupied by responding to correspondence from rail labor and management, state officials, and members of Congress and by handling the needs of auditors and investigators from the GAO, the DOT IG, the DOT Safety Task Force, internal review teams, and congressional committees. Most of these activities require attention ahead of our routine enforcement work (but top priority violations receive accelerated attention); thus, we cannot calibrate these relative workloads on a person-year basis. The demands of litigation and the regulatory process, for example, can be all-consuming for sustained periods of time. When that is the case for several months or years and when the enforcement load continues to rise, our safety attorneys must of necessity pay attention only to the agency's highest priority needs.

The Safety Division recently lost one attorney, and a second has this week accepted a position in the private sector. Replacement of these attorneys is, of course, essential if the accumulating backlogs are not to accelerate in size. The recent Division personnel history is as follows:

	Attorneys	Docket Clerk/ Computer Tech	Part-time Law Clerks	Secretaries
1984	10	1	3	2
1985	9	1	3	2
1986	8*/	1	3	2
1987	8*/	1	3	2

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*/ Assuming two replacement attorneys are hired.

AUTOMATED TRACK INSPECTION PROGRAM

SENATOR ANDREWS: Your FY 1987 budget requests $200,000 in budget authority and a $1.2 million program level for the automated track inspection program (ATIP). The 1986 budget authority level was $100,000 with a program level of $1.2 million. How much unobligated authority do you estimate will remain in the ATIP at the close of FY 1986 and 1987 if your budget request is approved? Why is there an unobligated balance each and every year?

ANSWER: There was $2 million unobligated carryover in FY 1986 partially due to closing out prior year contracts. We programmed $1 million to carryover at the end of FY 1986 in order to sustain the ATIP program at the same base level for FY 1986 and FY 1987. Together with our request for $200,000 this will provide a program level for ATIP of $1.2 million in FY 1987. We have been utilizing carryover to the extent possible, in concurrence with the President's efforts to reduce the deficit. We anticipate no carryover in this program at the end of FY 1987.

SENATOR ANDREWS: Given the limited resources applied to ATIP, is priority being given to track used for the transportation of concentrated hazardous materials as directed by Senate Report 99-152?

ANSWER: Priority in scheduling and operation is given to routes of heavy concentration of hazardous materials movement. In addition, routes of passenger train operation, (AMTRAK), receive similar priority in scheduling.

FRA, early on in the 80's, tasked the Transportation Systems Center (TSC) at Cambridge, Massachusetts, to create a nationwide map of hazardous material rail movement. Based on waybill sampling, TSC created a model that developed "cars per year" maps for all main tracks in the United States. The model, FRA found, was very accurate and the simulated maps are used today in scheduling.

FRA, of course, is aware of past and present changes in traffic flow resulting from mergers, revision of points of interchange, and construction or abandonment of chemical plants and complexes. For that reason each of the eight Regional Directors, participates in the advanced scheduling of ATIP. While headquarters personnel are familiar with the general system of rail transportation, field personnel are immediately aware of pattern shifts of rail transport.

SENATOR ANDREWS: Please describe how priorities for the use of this equipment are determined.

ANSWER: Headquarters and Regional Supervisors and Specialists jointly agree, in advance, on the routing of the ATIP vehicle. The priorities, or considerations given, are determined by:

a. Passenger train operation
b. Hazardous material movement,
c. Heavy tonnage routes passing through large urban areas,
d. Frequency of track caused accidents weighted against allowable operating speed,
e. Extended periods of deferred track maintenance, and
f. Climatic conditions.

With regard to climatic conditions, FRA's self-propelled track geometry measurement vehicle surveys in southern states during the winter and advances northward and onto mountainous routes in the spring and summer to avoid snow and below freezing temperatures. Operation in snow and during winter storms may hinder the normal flow of carrier train operations and sub-freezing temperatures may effect air and water systems on the vehicle.

RAILROAD SAFETY RESEARCH AND DEVELOPMENT

SENATOR ANDREWS: In 1984 testimony regarding your 1985 budget you stated that you were considering consolidating your rail safety and research and development programs. You did not combine these programs in your 1986 budget request because, as you answered last year, FRA recently completed an in-depth management review indicating that expected gains from merging these functions had been achieved by implementing structured coordination and management mechanisms. You further found that maintaining two distinct but coordinated channels to the Administrator ensured having independent, objective engineering and scientific insights and separates them from the day-to-day matters associated with safety enforcement and the rulemaking process. Contrary to these conclusions, this year's budget justification combines these programs. What circumstances have changed that would lead you to contradict the findings of your in-depth management review conducted just last year?

ANSWER: Subsequent to last year's testimony, the Federal Railroad Administration reevaluated that position based on the experience gained as a result of the structured coordination and management mechanisms that had been put in place. Although there were improvements in the effectiveness of the Research and Development (R&D) organization supporting the FRA safety mission, it was also evident that additional benefits and efficiencies could be obtained by placing the R&D office under the executive direction of the Associate Administrator of the Office of Safety. These improvements were primarily in the R&D planning for direct support of the regulatory and enforcement functions and for controlling and tracking the expenditure of contract funding for these functions. Accordingly, a reorganization was accomplished in November 1985, and the proposed budget for Fiscal Year 1987 combines these two programs.

SENATOR ANDREWS: How has this administrative uncertainty affected the operations of these programs?

ANSWER: There has not been any adverse effect on the operations of these programs due to this administrative change in the organization. Effectively, the R&D program was coordinated with the same offices as they are now. The major difference is that the Director of the R&D organization now reports directly to the primary user of the R&D results, the Associate Administrator for Safety.

SENATOR ANDREWS: Your budget justification indicates a 1987 program level of $9.581 million for railroad safety research and development, a decrease of $5.199 million from the 1986 program level. What research projects are envisioned for Fiscal Year 1987?

ANSWER: An estimated $2.5 million committed but not obligated will carry over from Fiscal Year 1986 thereby making the program level for Fiscal Year 1987 approximately the same as for 1986. For Fiscal Year 1987, research projects will continue to address the high priority safety issues concerning equipment and its operation, track, and the interaction between the track and the train. Specifically, projects are proposed to conduct safety evaluations on new cars being introduced into service, improve ways of detecting problem wheels and bearings, improve the safety of locomotive cabs, and improve train braking performance. In the human factors area, the evaluation of aptitude tests and training requirements for key railroad crafts, e.g., locomotive engineers and dispatchers, will be continued along with defining requirements for emergency response personnel to hazardous materials accidents. Hazardous materials transportation continues to receive high priority with research projects addressing evaluation of and improvements to tank cars not previously studied, use of trailer and container-on-flat-car service to carry hazardous materials, and the evaluation of the safety of carrying spent nuclear fuels by the railroads. Projects are continuing in support of the development and testing of track safety performance standards and improved inspection devices for detecting track safety problems. The joint industry/Government cooperative Track Train Dynamics program will be continued with emphasis on new train concepts and derailment causes. Accident statistics will be analyzed to help determine our future research requirements in addition to anticipating other safety issues. The unique facilities at the Transportation Test Center will be used to continue critical safety testing for issues involving both track and rail vehicle (train) operations.

SENATOR ANDREWS: What additional projects could be funded at the 1986 program level of $14.780 million?

ANSWER: The Fiscal Year 1987 request for new budget authority includes funds for the high priority safety research issues that have been identified. That level of funding, plus the program level funding in Fiscal Year 1986, is sufficient to carry out these projects in a timely manner. Some of the program level funds, obligated in Fiscal Year 1986 will support multiyear projects that continue into Fiscal Year 1987; some will be for projects completed in Fiscal Year 1987; and, some will require use of Fiscal Year 1987 funds for continuation or completion. Based on the current research requirements, no additional projects are contemplated.

SENATOR ANDREWS: Will the proposed 1987 research and development program level be sufficient to meet its primary objectives?

ANSWER: Yes, the requested funding level will address the highest priority safety issues currently identified. That level and funding from Fiscal Year 1986 on some multiyear funded projects will be sufficient to meet the primary objectives.

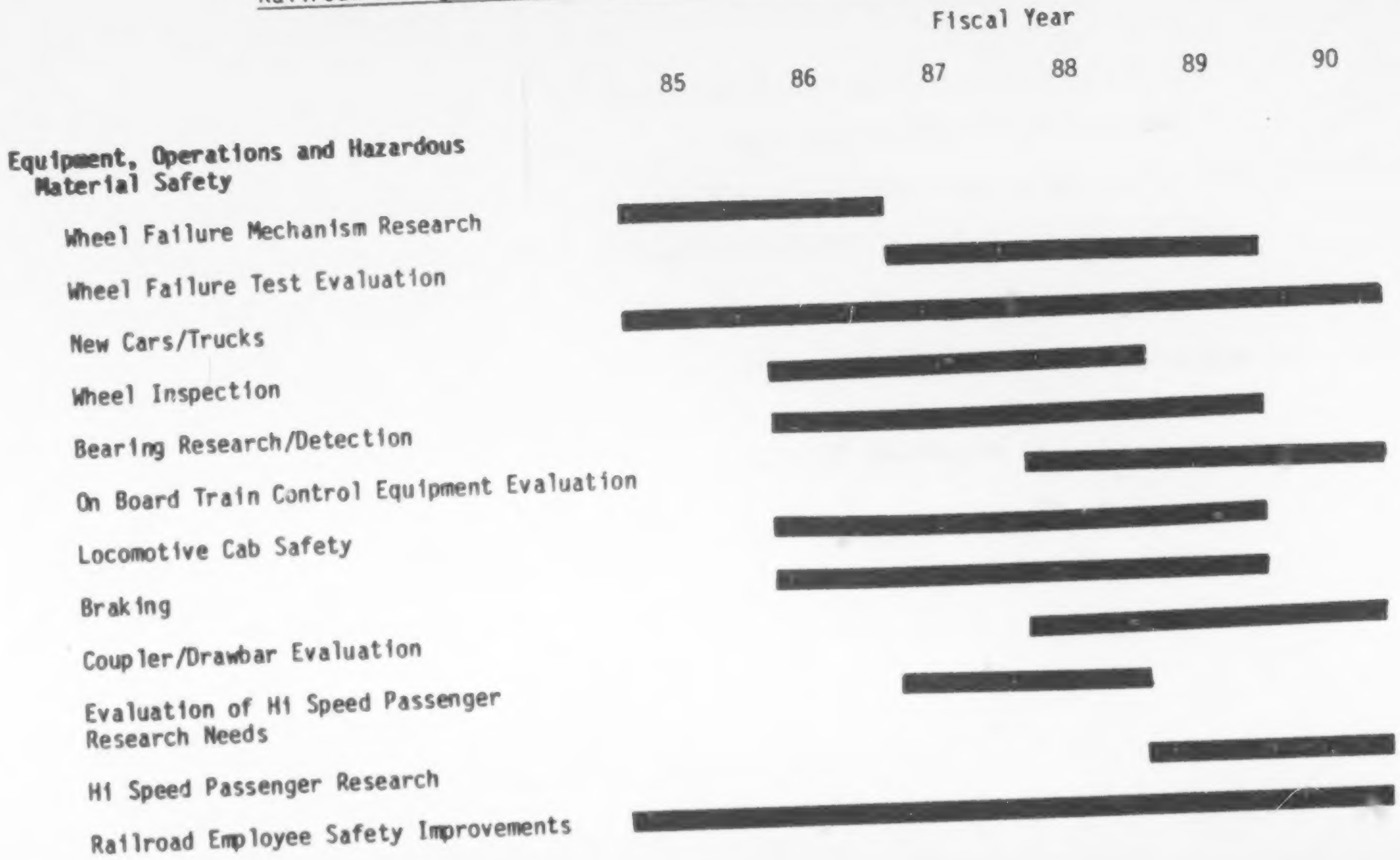
SENATOR ANDREWS: The 1987 funding for equipment, operations, and hazardous materials safety research decreases by $1.758 million, track safety research decreases by $1.952 million, and track-train safety testing decreases by $1.545 million, yet 1987 funding for program administration increases by $56 thousand. Why is it necessary to maintain the 1986 staffing level of 15 positions in 1987 given the reduction in the size of the program and number of projects to be administered?

ANSWER: Although the program level for Fiscal Year 1987 has been reduced compared to Fiscal Year 1986, the funds available in Fiscal Year 1986 in most cases are for multiyear projects that extend into Fiscal Year 1987 and beyond. These projects and their nature require the requested staff to provide support to effectively manage the projects. The R&D staff also conducts independent in-house research, evaluation, and analyses without the requirement for contractual funds. This is particularly true in cases where previous research or test results are applied to new safety issues or the previous research results are to be extended to new conditions. In addition, as available resources for contractual research reduces, the FRA has aggressively pursued more support from the private sector to offset these reductions. These cooperative programs, however, require significantly increased coordination and interface between the FRA project managers and industry personnel, thereby increasing the R&D staff work load. The current staffing level of 15 permanent positions is the minimum level required to maintain effective planning and management of safety research projects and at the same time provide the required engineering support to the FRA safety regulatory and enforcement mission.

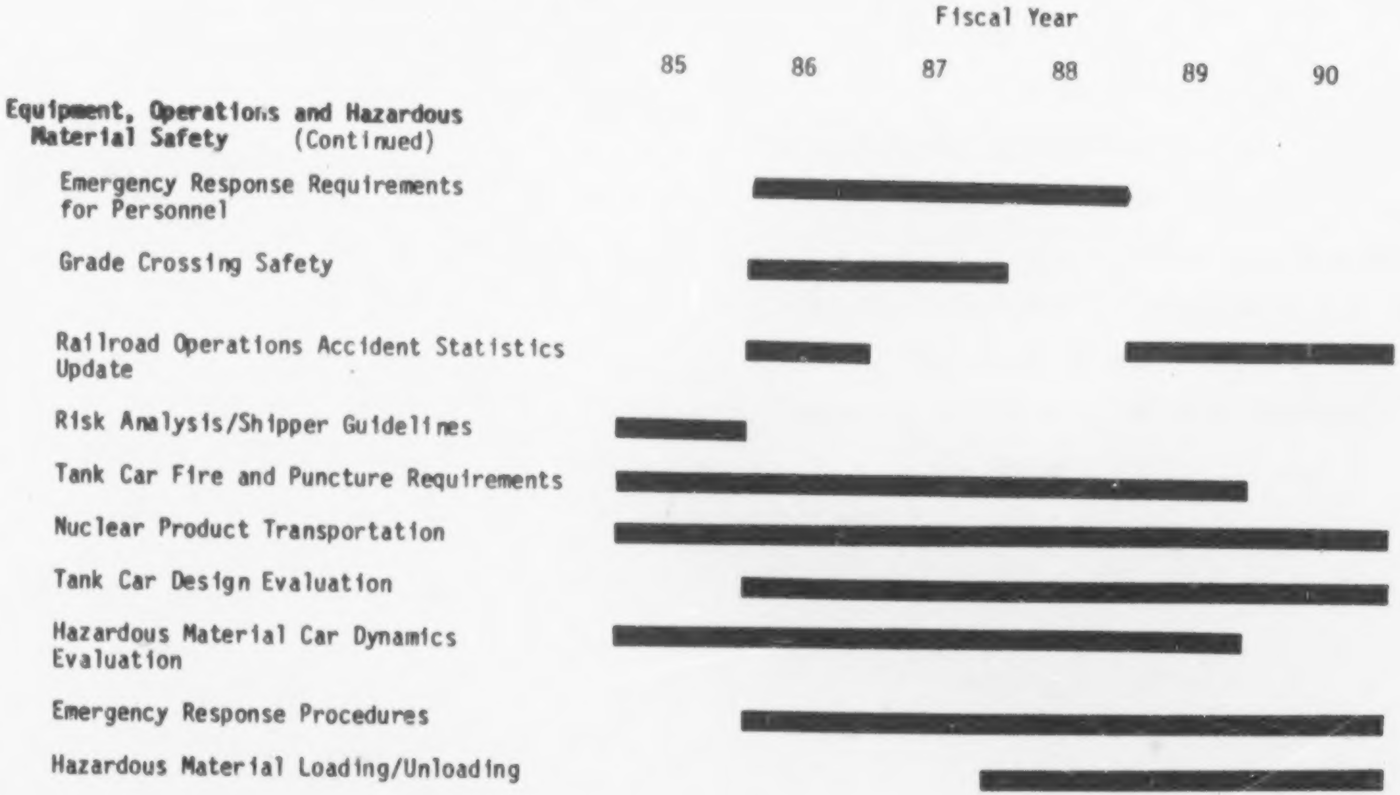
SENATOR ANDREWS: You stated last year before this Committee that the Office of Research and Development prepares forecasts of research and development needs over a five year period. Please provide for the record a copy of your most recent forecast.

ANSWER: A table of our most recent forecast of research requirements is provided for the record.

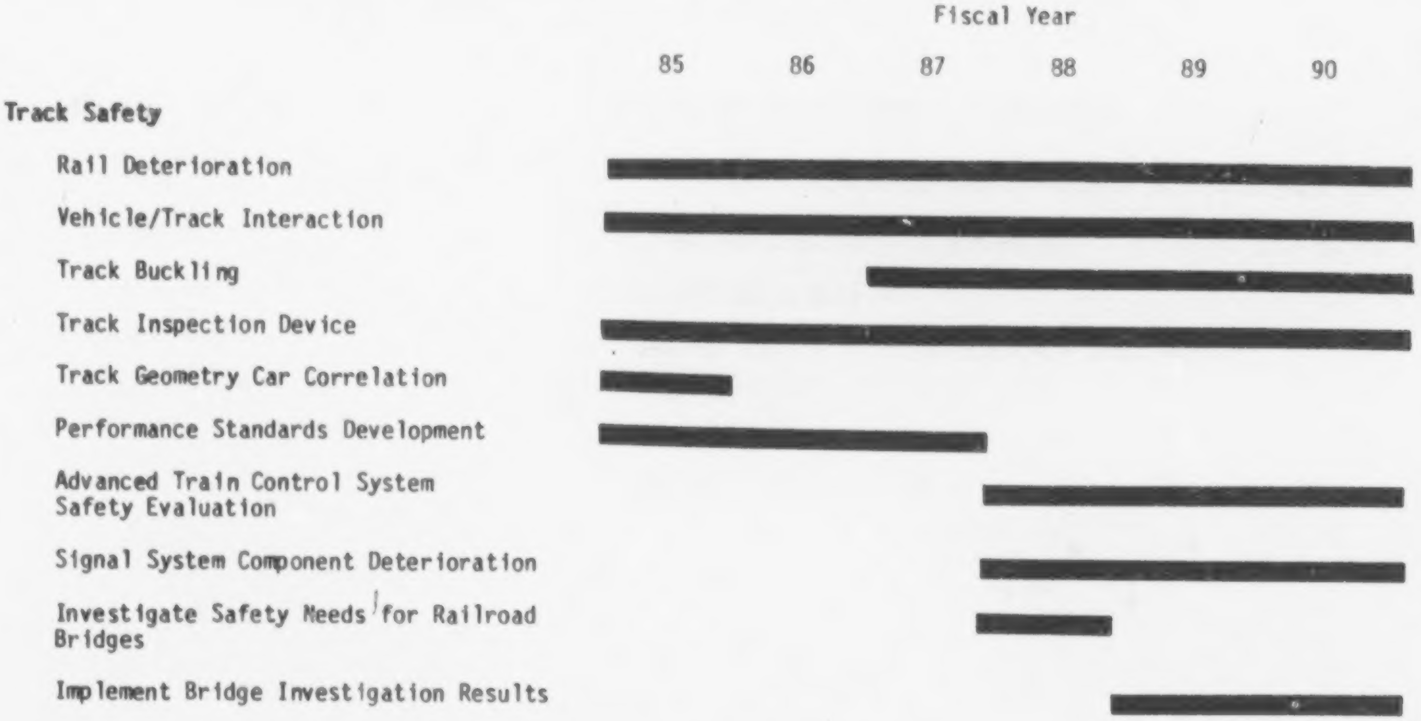
Railroad Safety Research and Development Requirements Forecast



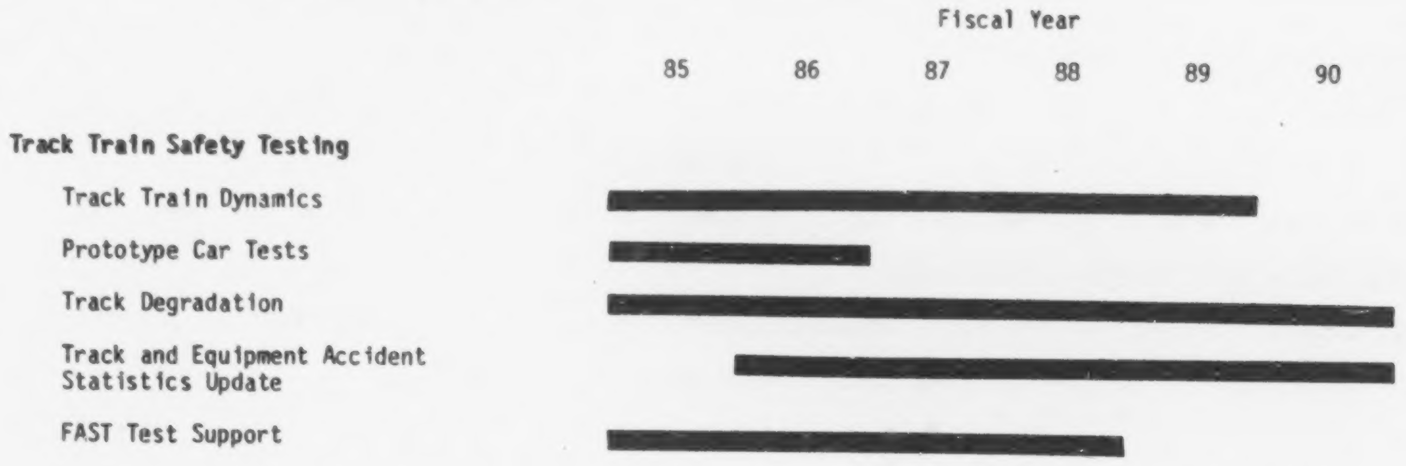
Railroad Safety Research and Development Requirements Forecast



Railroad Safety Research and Development Requirements Forecast



Railroad Safety Research and Development Requirements Forecast



SENATOR ANDREWS: What research areas do you intend to emphasize over the next five years?

ANSWER: The emphasis for the next five years will continue to reflect past and current experience plus estimates on the basis of expected trends. Included is evaluation of new cars and suspension systems, new braking systems, bearing and wheel failures detection systems, and improvements in locomotive cab safety. Surveillance and safety evaluations of radically new high productivity integral train designs and automatic train control concepts, including the use of satellites in train position location and dispatching, will require increased attention. Emphasis will continue to ensure the safety of tank cars and other cars that transport hazardous materials as well as the loading/unloading procedures and the development of improved accident emergency response procedures. In the track area, heavier axle loads and use of lubrication on the rail will continue to require close attention to avoidance of rail fatigue and the development of reliable inspection devices, as well as the determination of track geometry degradation and related inspection frequencies and strategies. Track performance standards development will be phased out, but testing to demonstrate and implement the concepts will continue to be emphasized.

SENATOR ANDREWS: For Fiscal Year 1986, you estimated that $5.3 million of FRA's total research and development funding would be received from private sector sources. How much private sector funding support do you anticipate for Fiscal Year 1987?

ANSWER: For Fiscal Year 1987, the industry contribution to the total research costs of FRA projects is estimated to be about $6 million.

SENATOR ANDREWS: Please explain the discrepancy in the 1986 Research and Development program level of $20.964 million shown on page 30 of your budget justification and the $14.780 million shown on pages 41 and 48.

ANSWER: The $20,964,000 FY 1986 Research and Development program level shown on page 30 of the budget justifications includes actual carryover from FY 1985 plus the FY 1986 appropriation before any Gramm-Rudman-Hollings cut and is derived as follows:

o Actual FY 1985 carryover into FY 1986	$10,364,000
o FY 1986 R&D appropriation	10,600,000
Total program level	$20,964,000

The $14,780,000 shown on pages 41 and 48 constitute the "Congressionally approved" program level (using "planned" carryover balances) in the FY 1986 Conference report not the "actual" carryover shown above. Departmental instructions require that the FY 1986 column in the narrative justification reflect the "program Level" approved by Congress, not the actual carryover, for comparative purposes. The $14,780,000 is derived as follows:

o FY 1986 Appropriation	$10,600,000
o FY 1986 "planned" carryover	4,636,000
Total program level	$15,236,000
Less: Gramm-Rudman-Hollings cut	-436,000
Revised program level	$14,780,000

The difference between the "planned" and "actual" carryover is due to contracts which were committed but not obligated at the end of FY 1985 but will be obligated in FY 1986.

FRA RESEARCH PROGRAM ACCOMPLISHMENTS

SENATOR ANDREWS: Among the rail safety accomplishments for 1985 cited in your budget justification was the issuance of a final rule to increase the monetary threshold for reporting rail accident/incidents from $4,500 to $4,900. Please explain the significance of this $400 increase in the reporting threshold.

ANSWER: Prior to 1975, the reporting threshold was $750. This reporting threshold was the same for many years; therefore, with inflation there appeared to be an increase in train accidents. In 1975 a new threshold of $1,750 was established and the criteria for biennial adjustments was instituted. In 1977 the threshold was $2,300; in 1979 the threshold was $2,900; in 1981 the threshold was $3,700; and in 1983 the threshold was $4,500. The algorithm for computing the threshold, Railroad Cost Index, is based on the current cost of replacement parts for equipment, track and railroad labor. Economic analysis of the Railroad Cost Index and Consumer Price Index shows that they are comparable. The $400 increase in the reporting threshold reflects the inflation between July 1982 and July 1984.

SENATOR ANDREWS: How many accident/incident reports do you estimate will be avoided each year as a result of this rule?

ANSWER: No accident/incident reports are really avoided due to the change in the reporting threshold. The purpose of the periodic change to the threshold is to keep constant the level of severity of an accident that will qualify for reporting. If the threshold were to stay constant every year, the number of accidents reported each year would become an indicator of inflation rather than an indicator of rail safety.

It is very important to FRA that the accident figures from year to year be comparable. FRA only wants to count, however, those accidents with a significant amount of damage, not the equivalent of railroad "fender benders." The periodic adjustment of the threshold is an attempt to ensure that the same type of accident are counted each year, ignoring the effects of inflation on the measurement of the resulting damage.

RESEARCH AND SAFETY PRIORITIES

SENATOR ANDREWS: In your prepared statement you said that "recent quantum advances in railroad technology and operations present FRA with the need to focus resources on evolving new technologies and more sophisticated railroad operations." How does your 1987 research and development program reflect these new priorities?

ANSWER: For example, the FRA Research and Development program for Fiscal Year 1987 addresses the evolving trends by continued emphasis on safety testing of new and advanced freight car designs, and evaluation of the changes in railroad operating practices and employee capabilities that may be affected by advanced dispatching systems under the Equipment, Operations and Hazardous Materials Program. The testing of new high productivity integral train concepts are being addressed under the Track-Train Safety Testing Program. In addition, the industry trend to use increased rail lubrication as a means of reducing rail wear and energy consumption leads to the need for the evaluation of the potential for increased rail fatigue and rail flaw inspection-detection difficulties.

SENATOR ANDREWS: Many of your proposed research and development projects would appear to yield economic benefits to the railroad industry. To what extent will the industry share the costs of such research and development activities?

ANSWER: The FRA invites industry participation in cooperative programs whenever this can be done without compromising the need for unbiased safety related results. To this end, we estimate that the industry will share the costs of our Fiscal Year 1987 research projects by contributing about $6 million in funding for in-kind services for which the Government would otherwise have to pay.

HAZARDOUS MATERIALS TRANSPORT RESEARCH

SENATOR ANDREWS: Your budget justification indicates that research into the transportation of hazardous materials by rail decreases by $965,000 from the adjusted 1986 level of $2.3 million. Is this a prudent reduction given the tremendous potential safety threat of hazardous materials transport accidents? Please elaborate.

ANSWER: The requested level of budget authority for Fiscal Year 1987 for hazardous materials research will allow the conduct of the high priority projects in a timely manner. The program level for Fiscal Year 1986 for the Equipment, Operations and Hazardous Materials Safety Program included a significant contribution from prior year cost savings, most of which was applied to the Hazardous Materials Subprogram in recognition of its high priority. The Fiscal Year 1986 funds are used to fund some multiyear projects. Some of these projects which will be continued into Fiscal Year 1987 and others will be completed in Fiscal Year 1987. The subprogram, therefore, has a significant level of activity in Fiscal Year 1987 even with the apparently reduced program funding level.

RULEMAKING

SENATOR ANDREWS: How many safety rulemakings were issued by FRA in 1985? Please provide a brief description of each rulemaking including its anticipated effect on rail safety.

ANSWER: FRA issued five final rules during 1985 and initiated three other rulemakings.

Most notable, FRA issued a final rule addressing the use of alcohol and drugs during rail operations, which we believe will reduce the risk of accidents due to abuse of such substances.

FRA also acted to extend the interval for cleaning and disassembling locomotive airbrakes on the basis of extensive field testing showing that longer intervals would not impair the safety performance of these components and would permit significant cost savings for the railroads.

FRA issued two rules to reduce the paperwork associated with our locomotive standards and operating rules requirements. These actions will be particularly helpful to small railroads, which are disproportionally burdened by such requirements. Since neither set of changes had direct safety implications, there will be no diminution of the safety of rail operations.

In its fifth final rule, FRA eliminated an ambiguity concerning the need to remove a freight car wheel from service on the basis of a suspicion that the wheel was thermally abused. The change will not alter the safety performance of these wheels and will eliminate some costs being incurred due to unnecessary wheel change outs ascribed to the previous rule.

FRA also initiated two rulemaking proceedings to address recent technological developments and operational changes spawned by collective bargaining agreements for the elimination of cabooses. Both proposals, if adopted, have the potential to improve the safety of train operations and reduce the cost of compliance with FRA rules.

Finally, working with the Department's Research and Special Programs Administration, FRA issued an advance notice of proposed rulemaking that addresses the need for new rules concerning the safety of highway and intermodal tanks during rail movement as a trailer on a flat car or container on a flat car.

SENATOR ANDREWS: Has the final rule on Alcohol and Drug use in railroad operations been implemented?

ANSWER: Yes. FRA issued the final rule on August 8, 1985. Implementation of the rule was delayed first by a temporary restraining order issued by the U.S. District Court for the Northern District of California and later by a stay issued by the Ninth Circuit. When the Supreme Court, acting on January 27, 1986, vacated the stay the rule went into effect on February 10, 1986. Post-accident toxicological testing became mandatory on March 10, 1986, and pre-employment drug screens will be mandatory as of May 1, 1986.

SENATOR ANDREWS: What are the elements of this regulation, *i.e.*, what kinds of testing and prevention programs are required by this rulemaking?

ANSWER: The rule applies to employees covered by the Hours of Service Act and consists of six elements. First, the rule prohibits railroad employees covered by the Hours of Service Act from possessing, using, or being under the influence of or impaired by alcohol or controlled substances while on duty. The rule also includes a "*per se*" prohibition on working with a blood alcohol concentration of .04 percent or more.

Second, the rule requires that the railroads make reasonable inquiry into alcohol and drug involvement in all train accidents and report any relevant information discovered. This rule, together with complementary changes to our reporting guide, will ensure that this important dimension of human performance is better reflected in the accident data.

Third, the rule requires post-accident toxicological testing after approximately 150 to 200 events each year. These events are identified by category: major train accidents, impact accidents, and employee fatalities. Post-accident testing will permit us, for the first time, to identify with reasonable precision the role of alcohol and drugs in those occurrences that involve the greatest threat to the safety of the public and railroad employees.

These three elements of the rule correspond to recommendations issued by the National Transportation Safety Board in 1983. We believe that these provisions are important. However, had we stopped there I believe that the rule would not have been effective, because it would not have addressed two primary problems in the railroad environment. First, the railroad industry did not have the clear right to test. If you cannot test, you very often cannot determine with certainly whether an employee has violated Rule G. It comes down to one person's word against another. The disciplinary action ends up in arbitration, often with insufficient evidence to judge the truth of the matter -- or the case is compromised out with other grievances. This makes supervisors hesitant to act in situations where it must be one person's word against another's, even if the supervisor is able to identify signs of impairment. That inability to determine violations with certainty has undermined the effectiveness of the railroads' Rule G.

The second fundamental failing in the system was the lack of any meaningful incentives for employees with problems to step forward voluntarily to seek help. If the only response to a Rule G violation is dismissal, employees will not bring peer pressure against those with alcohol and drug problems. If we had failed to create meaningful incentives for the employee to come forward on his own, or for fellow employees to apply peer concern, then the rule would have been purely reactive. We would not have been able to reach people until they caused an accident.

Had we concluded the rulemaking without addressing these problems, we would have had a rule requiring further work in one or two years. Further, we would have been faced with a steady influx of active substance abusers into the railroad workforce as older employees retire -- making these problems all the more critical. So we put three additional provisions in the rule.

The fourth element of the rule requires mandatory pre-employment drug screens. Some railroads have enjoyed a generally lower incidence of drug abuse in their employee ranks because of the older average age of railroad employees. This provision will help to ensure that the problem does not worsen as younger generations enter the railroad workforce.

The fifth element of the rule authorizes the railroads to require breath and urine tests for reasonable cause. This provision defines three situations in which testing may be required. The first is "reasonable suspicion." This refers to observations that the supervisor must be able to articulate, such as slurred speech or lack of coordination. The second basis for testing is the direct involvement of the employee in a reportable accident or injury, where the supervisor reasonably suspects that the employee's actions contributed to that accident or injury. The third basis for testing is violation of one of several enumerated operating rules that are crucial to safety. These are the kind of circumstances that clearly indicate a performance problem and call into question the fitness of the employee.

The final element of the rule is what we call the "bypass provision." It covers two situations. First, the employee steps forward and asks for help with a substance abuse problem. Second, the employee is in violation of Rule G on the job and a co-worker identifies that employee to a supervisor. In both cases the railroad is required to provide an opportunity for the employee to get help, rather than terminating that person's employment. This is a proactive provision. It gets the troubled employee out of the system and into treatment before that employee harms himself or someone else. It ensures that the troubled employee will be treated fairly and will be returned to service when he no longer presents a threat to safety.

Note that the testing and bypass provisions will work together. The threat of detection will encourage troubled employees to seek help before they are caught. Co-workers will also be more likely to use the bypass provision to reduce their own exposure.

These elements of the rule will work in concert with the industry's national voluntary program, Operation Red Block. It is essential to recognize that a strong rule and an effective voluntary program are complementary -- not mutually exclusive. A rule can detect, it can insure that a problem employee is removed from service. In the case of a nondependent user it may even deter. But a rule cannot rehabilitate, it cannot ensure early identification, and it cannot create a peer environment conducive to mutual support. Only a voluntary program can accomplish these objectives.

SENATOR ANDREWS: What are the estimated annual costs to FRA for toxicological testing associated with this rule?

ANSWER: FRA has signed an interagency agreement with the Civil Aeromedical Institute (CAMI) to conduct the tests. CAMI and the FRA estimate the cost for FY 1986 will be $190,600, $97,000 for FY 1987, and $109,000 for FY 1988. It should be noted that these costs are estimates because the testing costs are determined by testing volume, which is determined by the number of qualifying rail accidents and the number of positive test results which must be confirmed using a second, more expensive, testing methodology. The figures cited above are subject to change.

SENATOR ANDREWS: Your budget requests an additional training specialist to assist the railroads in improving carrier programs dealing with the problem of alcohol and drug abuse. What unique functions would this training specialist perform?

ANSWER: The training specialist must possess the education, qualifications, and experience to devise, implement, and oversee various types of programs that result from the new alcohol and drug abuse rule. In addition to training skills, the incumbent must have expertise in areas of toxicology, pharmacology, and medical practices as they relate to drug and alcohol abuse; drug and alcohol program development; expertise in probable cause and pre-employment urinalysis results evaluation; and expertise in operating and maintaining breathalyzer equipment. Also, the training specialist must be able to evaluate and review rehabilitation programs in order to assure their effectiveness.

SENATOR ANDREWS: Why can't these responsibilities be handled by existing FRA personnel?

ANSWER: Our Federal inspectors are not trained in these specific and sensitive areas.

SENATOR ANDREWS: How many final rules (safety and non-safety) did FRA publish in fiscal year 1985?

ANSWER: FRA published five final rules.

SENATOR ANDREWS: What were they and when were they published?

ANSWER: We updated our Accident Incident reporting rules to reflect inflation on December 17, 1984. On January 29, 1985, we modified our locomotive standards to extend the intervals for disassembling and cleaning locomotive air brakes. On February 19 and 27 respectively, we reduced the paperwork requirements of our locomotive standards and our operating practices rules. On April 4, 1985, we amended our freight car safety rules to eliminate the ambiguities and confusion about thermally abused wheels. Finally, on August 8, 1985 we issued our alcohol and drug rule.

SENATOR ANDREWS: What rulemakings does FRA currently have before it? What are the expected dates these rulemakings will be finalized (or go to the next stage in the process)?

ANSWER: We anticipate that two regulatory proposals will be issued as final rules in the near future. The first would change our train brake rules to accommodate new end-of-train telemetry devices that can provide train engineers with detailed information about the condition of the brake system for that train, thereby allowing the engineer to improve the safe handling of that train. The second involves changes to our rules concerning the inspection of rear marker devices to reflect both the advent of new telemetry monitoring systems and the operational changes stemming from the collective bargaining agreement to eliminate cabooses. We are still analyzing the comments received in response to the RSPA advance notice relating to trailer-on-flat-car and container-on-flat-car service and have not established a target date for further action.

SENATOR ANDREWS: What rulemakings will FRA be involved in in fiscal year 1987? (Please elaborate if any of these are new regulatory proceedings)

ANSWER: We are in the process of reviewing several safety topics that may result in rulemaking action during fiscal year 1987. We plan to conduct safety hearings on the use of radios in rail operations and the need for improvements in the safety of locomotive cabs. Other issues we are considering include changes in our rules on the placement of hazardous materials at the rear of trains without cabooses and the need for rules on freight cars used for maintenance purposes. Some or all of these topics may result in regulatory action, but we cannot speculate on what course of action the agency will ultimately take.

SENATOR ANDREWS: Proposals for regulatory action can come from a variety of sources including Congress, the National Transportation Board, and rail labor. Who requested FRA's rulemakings of fiscal years 1983, 1984, 1985, 1986 and estimated 1987? (List rulemakings by year by initiating party)

ANSWER:

FY 83

Congress	Alerting Lights NPRM Senator Paul Simon
Congress	Reduction of paper work associated with Hours of Service/Blue Signal rules
FRA/NTSB	Retrofit of DOT specification 105 tank cars
FRA	Installation of safety hangers box car doors
FRA	Revision of rules concerning railroad signal systems

FY 83 (cont.)

FRA/NTSB	Initiation of Alcohol & Drug rule

FY 84

Congress	Passenger equipment, commuter track standards, power brake, and flammability guidelines
Labor/ Management	Protection of employees working in automated classfication yards
Management	Revision of rule concerning reliance on discoloration as evidence of thermal abuse of freight car wheels
FRA	Initiated test program to improve locomotive safety standards
FRA	Initiated inquiry into grade crossing safety

FY 85

Labor	Reviewed effects of 1982 regulatory changes to power brake rules during safety inquiry
Management	Initiated regulatory actions to accommodate development of radio telemetry devices
FRA	Revised accident/incident rule to adjust threshold for inflation
FRA	Reduced paperwork associated with locomotive safety standards
FRA	Reduced paperwork and regulatory requirements for small railroads

FY 86

NTSB	Examine the need for regulatory actions concerning the use of radios during rail operations

FY 87

NTSB	Examine the need for regulatory actions to improve the safe operation of freight cars used for maintenance purposes

SENATOR ANDREWS: Has FRA ruled on the regular testing, inspection, and maintenance of rail-highway crossing? If not, when? (Page 33 of Safety Report)

ANSWER: Yes, on October 4, 1978, FRA terminated its rulemaking proceeding on that subject, finding no basis for federal rulemaking.

FINANCIAL ASSISTANCE - STRIKE FORCE

SENATOR ANDREWS: What were the major activities and achievements of FRA's financial assistance "strike force" in fiscal years 1985 and 1986?

ANSWER: In addition to answering numerous inquiries on problems associated with rail line abandonments and the establishment of shortline railroads the strike force accomplished the following:

- Played an active role in the transfer from Class 1 carriers to short lines of two segments of light density lines (one in Minnesota and one in Louisiana) that were the subject of abandonment proceedings.
- Assisted in the evaluation and planning for reconstruction of two flood damaged, publicly owned short lines, one in Pennsylvania and one in West Virginia.
- Participated in the discussion of alternatives to abandonment of light density rail lines in South Dakota.
- Through the section 401 process, facilitated the transfer of approximately 10 segments of Class 1 rail lines that were candidates for abandonment, to other railroads for the purpose of continued rail operations.

SENATOR ANDREWS: What is planned for fiscal year 1987?

ANSWER: The future strike force activities are difficult to project since, to a large extent, they are "one of a kind" responses to site specific issues or concerns. FRA plans to continue the active use of section 401 for restructuring of rail service in marginal areas, and will remain ready to commit our expertise to specific problems as they arise.

SENATOR ANDREWS: What amount of resources (personnel, time and money) was used in this endeavor in fiscal years 1985 and 1986, and planned for in fiscal year 1987?

ANSWER: In 1985, and thus far in 1986, the strike force consisted of one individual formally assigned to the strike force and responsible for answering inquiries and directing its activities. This individual committed approximately three-fourths of his time to strike force activities. Other FRA employees were brought onto the strike force for specific activities within their specialized area of expertise, as demand warranted. Except for the one individual permanently assigned to "strike force" functions, individuals generally spent one week or less on a strike force project, and all related costs (such as travel), were absorbed by their specific offices. As a consequence, FRA does not keep a separate account for strike force activities. FRA estimates that strike force activities used approximately 1.5 man years of time from approximately 10 persons during 1985, and approximately $10,000.00 in travel costs. A similar commitment of resources is expected for 1986. Because of the phasing out of Federal financial assistance, and the proposed sunsetting of the ICC (with the elimination of the Office of Rail Public Counsel), FRA expects an increase in requests for assistance by the strike force in 1987, and that the commitment of resources to the strike force may double.

SENATOR ANDREWS: What amount of resources (personnel, time and money) was spent by the Community and Shipper Assistance Staff in Fiscal Year 1985, expected for 1986 and planned for in fiscal year 1987?

ANSWER: The Community and Shipper Assistance Staff consists of the one person permanently assigned to "strike force" activities, identified above. During 1985, the remainder of 1986, and, in 1987, that level of staffing and commitment of resources is expected to continue.

EMERGING CORRIDOR FUNDS

SENATOR ANDREWS: What amount of funds remain in the High Speed Rail-Emerging Corridor Account?

ANSWER: Of the $4 million appropriation, we have obligated $3,325,379 as of March 31, 1986, leaving an unobligated balance of $615,000, leaving an uncommitted balance of $59,621. The $615,000 has been planned to be used as follows:

	Amount	Date of Commitment
Missouri	$100,000	6/20/85
Pennsylvania	140,000	" " "
Texas	375,000	" " "

CONTRACTUAL SUPPORT

SENATOR ANDREWS: Proposed funding for contractual support in the Office of the Administrator decreases from the 1986 level of $8.958 million to $1.180 million. Actual 1985 funding was $2.504 million. What additional activities were funded from this program in 1986 that were not undertaken in 1985? Which of these activities will not be funded in 1987 under your proposed budget?

ANSWER: The Office of the Administrator appropriation has been shown in the budget as merged with the Rail Service Assistance appropriation. Since the Office of the Administrator account is one-year, only $1,088,000 is available for Policy support contracts. The balance includes both carryover and FY 1986 appropriated contract support from the no-year Rail Service Assistance account. A comparison of FY 1986 and FY 1987 activities follows (in thousands):

	FY 1986	FY 1987
Office of the Administrator:		
Policy Support	$1,088	$1,180

Rail Service Assistance:

Northeast Rail Studies	1,673	---
Labor/Management Practices	1,665	---
Amtrak Analysis	454	---
Freight Assistance Support	3,278	---
Emerging Corridors	800	---
Total	$8,958	$1,180

SENATOR ANDREWS: Why is such a large reduction proposed in this area in 1987?

ANSWER: We are not requesting a reduction in this area in 1987. All but $1,088,000 in FY 1986 constitutes unobligated balances from FY 1985 and prior year appropriations which we expect to obligate in FY 1986. The FY 1987 request of $1,180,000 is actually an increase of $92,000 over the FY 1986 appropriation level before the Gramm-Rudman-Hollings cut in FY 1986. With the $435,000 Gramm-Rudman-Hollings cut, the increase is $527,000.

SENATOR ANDREWS: How much additional contract support would be necessary in FY 1987 if the sale of Conrail to the private sector is not completed this year?

ANSWER: The total cost would depend upon how long the process continued and what tasks needed to be done. The Department's contract with Goldman, Sachs & Co. requires payments of $125,000 per quarter. We reimburse Goldman Sachs for the cost of lawyers and accountants retained for the Conrail work, as well. Legal costs may be expected to run about $30,000 monthly. It is unclear whether additional accounting services would be needed. Assuming a closing were held in December 1986, additional contract support after October 1, 1986, would probably amount to about $250,000, allowing a small contingency. Overall, for the 12 month period beyond October 1, 1986 the cost would be approximately $1,050,000 if Conrail were not sold.

SENATOR ANDREWS: Please provide for the record a breakdown of contract support expenses for FY 1985, 1986 and 1987?

ANSWER: The following table shows a breakout of the Office of the Administrator, contractual support obligations.

Dollars in Thousands

Program	FY 1985	FY 1986	FY 1987
Economic Analysis	$ 290	$ 263	$ 310
Industry Analysis	290	240	302
Systems Analysis	713	585	568
Freight Assistance Support	271	3,278	---
Northeast Rail Studies	665	1,673	---

Emerging Corridor Studies	---	800	---
Labor/Management Practices	275	1,665	---
Amtrak Analysis	---	454	---
Total	$2,504	$8,958	$1,180

STANDARD LEVEL USER CHARGES

SENATOR ANDREWS: Page 2 of your budget justification indicates the FY 1987 Budget contains $1.8 million for standard level user charges (SLUC). A reduction of $80,000 from 1986. How was this reduction accomplished?

ANSWER: The $80,000 reduction was made by the Office of Management and Budget. To incur such a savings we would have to reduce the amount of space we occupy in FY 1987.

SENATOR ANDREWS: The Office of the Secretary reports a 52 percent increase in the General Services Administration's SLUC rate for space rental in the Nassif Building. Why is this increase not reflected in FRA's 1987 Budget?

ANSWER: Our FY 1987 budget request to the Office of the Secretary was submitted prior to receiving the General Services Administration's rate increase. OST does not permit inflationary increases without support. The FY 1987 SLUC estimate was included at the FY 1986 estimate, $1,880,000. We advised our Office of the Secretary that the rate increase in rental space was not included in our OST submission and they would have to accomodate the increase in the OMB allowances. However, OMB not only disallowed the increase but they cut the base number by $80,000 for a total shortfall of $640,000. If FRA receives a bill for the higher amount we could not pay it since OMB limited us to $1.8 million. If forced to pay the higher bill, we would request an FY 1987 amendment.

(In thousands of dollars)

	FY 1987 Budget	FY 1987 Revised Budget	Shortfall
Appropriation			
Office of the Administrator	$849	$1,347	$498
Railroad Safety	951	1,093	142
Total	$1,800	$2,440	$640

SENATOR ANDREWS: If FRA is required to absorb an increase in SLUC for FY 1987. Where would you propose to take reductions? If no reductions are proposed. How would you absorb such increased costs?

ANSWER: The Federal Railroad Administration could not absorb the $640,000 shortfall and maintain its current staffing and functions. We are currently preparing FY 1987 budget amendments for the Office of the Administrator and Railroad Safety appropriations to cover this shortfall.

WORKING CAPITAL FUND

SENATOR ANDREWS: Your proposed 1987 budget contains $1.517 million for Working Capital Fund payments to the Office of the Secretary (OST). A 14.5 percent increase from 1986. What additional services are being provided at this increased funding level?

ANSWER: No additional services have been proposed. However, operational costs of existing services are increasing.

SENATOR ANDREWS: In what areas of your budget were reductions made to reflect these increased services provided through the Working Capital Fund?

ANSWER: No budget reductions are necessary. The increase in the Working Capital Fund payments was provided to FRA by the Office of the Secretary in conjunction with the Congressional submission. The Office of the Administrator's cost estimates were increased by $80.3 thousand and the Office of Safety's cost estimates were increased by $111.6 thousand. The FY 87 budget estimate was not increased to cover these amounts which represent increases to the operational costs of existing services.

AUTHORIZED POSITIONS

SENATOR ANDREWS: Summary Tables III and IV on page 4 of your budget justification indicate that total full-time equivalent employment for the Office of the Administrator exceeds authorized positions in both 1986 and 1987? Please explain?

ANSWER: The positions authorized by Congress are for full-time permanent positions. The full-time equivalent number includes not only full-time permanent employees but also includes part-time, temporary and intermittent employment which are not included in the number of full-time permanent positions authorized by Congress. Also, the Office of Management and Budget describes "authorized positions" as the number of full-time employees with permanent appointments that are on board or planned to be on board "at the end of the year." When positions are abolished from one-year to the next, employees normally do not leave at the beginning of the fiscal year (without a reduction-in-force) but will leave sometime during the year. Since there is no authorized position for them, this creates an imbalance between authorized positions (at the end of the year) and the number of full-time equivalent (on board employment).

SENATOR ANDREWS: Provide for the record a breakdown of Office of the Administrator employment between full-time permanent and part-time positions?

ANSWER: The following table provides a breakdown of employment for the Office of the Administrator:

Full-Time Equivalents	FY 1985	FY 1986	FY 1987
Full-time permanent employment	197	205	184
Part-time and temporary employment	12	25	3
Total	209	230	187

BENEFITS OF FORMER PERSONNEL

SENATOR ANDREWS: Page 11 of your budget justification indicate that benefits for former Office of the Administrator personnel increases from $11,000 in 1986 to $235,000 in 1987. What accounts for this large increase.

ANSWER: In order to meet the full-time equivalent employment level the FY 1987 budget imposes, it is anticipated that personnel may be released from Federal employment in FY 1987. Some may be unable to obtain jobs and will start drawing unemployment compensation for which the Federal government must reimburse the State. The severance pay and unemployment compensation cost, if such a reduction takes place, are reflected in this object class. The severance pay calculation is based on each individual action and is based on salary, years of Federal employment and the employee's age. The unemployment calculation cannot be accurately determined at this time as it is affected by several factors including how quickly the employee finds a job and in which jurisdiction the employee applies for benefits.

OFFICE OF THE ADMINISTRATOR STAFFING

SENATOR ANDREWS: The FY 1987 staffing level of 1986 permanent positions fo the Office of the Administrator reflects a reduction of 8 Amtrak staff positions. What duties are these personnel presently performing?

ANSWER: The office supports the Secretary in a role as a member of the Amtrak Board of Directors, majority stockholder and banker, and carries out all economic and program analysis associated with FRA passenger service functions. These personnel serve as principal advisor to Departmental and FRA officials and as such implement Administration policies, plans and programs on Amtrak. The office administers Amtrak grant programs under the Rail Passenger Service Act and reviews and recommends courses of action and procedures for ensuring the effective and economical use of Federal funds in support of rail passenger service.

Personnel conduct economic and financial analysis of Amtrak operations; monitor and assess route performance; identify and evaluate subsidy reduction measures; evaluate capital improvements; and prepare budgetary plans. Studies are conducted of engineering and construction activities related to operations, right-of-way, signals, equipment and service coordination and use.

SENATOR ANDREWS: If Federal funding for Amtrak is continued in FY 1987, how many of these personnel should be retained? What would be their responsibilities?

ANSWER: All eight positions should be retained. Responsibilities would include supporting the Secretary in a role as banker and majority stockholder of Amtrak as well as responsibility for carrying out all economic, financial and program analysis associated with FRA passenger service functions. This staff is also responsible for the Administration of Amtrak Grant Programs, and for monitoring the remaining activity under FRA grants for high speed rail studies. The staff reviews and recommends courses of action and procedures for ensuring the most effective and sould economical use of Federal funds.

The staff would continue its investigation of opportunities for reducing operating costs and subsidy requirements. Responsiblities would also include monitoring rail passenger service performance to insure Congressionally mandated criteria are met; assessment of equipment use efficiency, and track and signal effectiveness; evaluation of ridership performance and trends; and performing of other studies on Amtrak.

SENATOR ANDREWS: What additional funding woud be required for the Office of the Administrator if these positions are retained?

ANSWER: The eight positions would require $342,000 in additional funding for salaries and related expenses.

ASSESSMENT REVIEWS OF CARRIER SAFETY PROGRAMS

SENATOR ANDREWS: The Inspector General in his semi-annual report for the first half of FY 1985 reported that FRA needs to establish better controls over assessment-type reviews of carrier safety programs in order to ensure that the assessments receive the attention of top railroad management and achieve their primary objective of immediate safety improvements in rail carrier operations. Do you agree with this finding?

ANSWER: The key to the success of FRA's systems safety assessment approach is followup. Experience has shown that followup activities should be initiated no later than 180 days after the completed assessment. This permits top railroad management the opportunity to develop and implement programs to address FRA recommendations. In no less than 60 days after followup activities are completed a close-out conference is held with all concerned. However, FRA did not meet these goals in all cases. In the past FRA's followup procedures were not as formalized as they should be.

SENATOR ANDREWS: What action has FRA taken to improve the performance of assessment-type reviews.

ANSWER: FRA, during 1985, re-evaluated every aspect of our past assessment followup procedures and have recently issued new instructions concerning assessment and followup procedures. The guidelines outline uniform procedures for conducting Federal

Railroad Administration safety audits or assessments. They provide organization, scheduling and planning required prior to the field investigation, indicate areas which should be addressed by inspectors during the field inspection, prescribe the format and procedures for the preparation of the report and procedures for post-assessment schedule, investigation and report.

TITLE: TITLE VII BENEFIT PAYMENT PROGRAM

SENATOR ANDREWS: The Inspector General in his semiannual report for the second half of FY 1985 stated that the Railroad Retirement Board (RRB) needs to improve practices and procedures in use to determine eligibility of prior railroad employees applying for benefits under provisions of the Title VII Benefit Payment Program. The Inspector General also made several recommendations to FRA regarding recertification of program eligibility for current and potential applicants. It was reported that FRA did not agree with the findings or recommendations. What was the basis for your contention with these findings and recommendations?

ANSWER: The FRA and the Railroad Retirement Board both disagreed with the premise of the Office of Inspector General's auditors that the Title VII statute and the benefit schedule required that each claimant prove a direct connection between his loss of employment and a specific action taken under the Regional Rail Reorganization Act or the Northeast Rail Service Act in order to establish eligibility for benefits. FRA submitted a response to the OIG Report, including a legal opinion from the FRA Chief Counsel, explaining our interpretation of the eligibility criteria. We have recently been informed that the Office of Inspector General has closed the audit.

SENATOR ANDREWS: Have you directed the RRB to make any changes to the Benefit Payment Program? If so, what were your directions? If not, why?

ANSWER: We met with representatives of the RRB on several occasions to discuss the Office of Inspector General audit report. In those instances where the OIG audit report questioned the completeness of supporting documentation or similar questions arose, we advised the RRB to reexamine the claim record. The RRB made a report to the OIG on the disputed claims. The RRB has assured us that procedures have been instituted to ensure that all claim files contain documentation which fully supports the eligibility determination.

QUESTIONS SUBMITTED BY SENATOR CHILES

RAILROAD SAFETY: SAFETY BOARD RECOMMENDATIONS

SENATOR CHILES: We have heard from the National Transportation Safety Board (NTSB) with regard to a number of outstanding recommendations they have made to improve safety in the railroad industry. They have, for example, recommended that trains be equipped with compatible radio communication equipment. This recommendation was first made in 1972. What are your views?

ANSWER: Equipping all trains with compatible radio equipment provides an enhancement to train movement management. For this reason, the industry is always motivated to maximize compatibility. Hence, the incidence is not pervasive. Train movement on the main track is authorized by the superintendent and train dispatcher authority via the directives contained in timetable, train orders, special instructions, as well as the permissive indications of signal systems. The availability and compatibility of radio equipped locomotive units promotes train movement management. The absence of it does not create safety risks in routine train operations. Premised on the needs of safety, the present data does not support a regulatory resolve. The FRA, in its safety monitoring responsibilities has and will continue to measure and evaluate radio related problems/issues as well as influence non-regulatory resolve countermeasures. In addition, the FRA will be initiating a public inquiry on "radio issues" in the railroad industry.

SENATOR CHILES: The NTSB has also recommended that each train locomotive have two fully capable operators on board in order to provide backup to the principal operator. What are your views?

ANSWER: The singular qualified and responsible operator dates back to the 1930's when the Multiple Unit (MU) electrically powered passenger cars/trains were introduced. However, prior to that time, the second engine service employee, the fireman, was not required to be a qualified operator. Since that time, the Federal Board of Arbitration, State decisions, and the labor/industry collective bargaining process have reshaped train crew consist requirements - - - including the prior requirement that a second engine service employee need be assigned. Throughout this time of transition, the assigned operator assumed full responsibility as opposed to a sometimes shared responsibility. Technology designed and introduced devices to monitor the operator and effectuate such actions as may be necessary and appropriate to preclude the risk of accident, if the operator were to become incapacitated. Further, FRA has influenced industry rules changes during the mid 1970's which are applicable to any crewmember occupying the control compartment of any locomotive consist. These rule changes assign a role of responsibility --- observation and safe course actions. Neither the accident investigative process nor the years of statistical data indicate the single qualified operator to be a safety threatening problem. Because of the considerable background, the proposed could not stand the test to favor nor support the Federally mandated assignment of two fully capable operators by use of present data.

TRAIN ACCIDENTS DOWN 12%

SENATOR CHILES: I noticed in your statement that train accidents have decreased 12.2% in 1985 compared to 1984, and that you attribute this improving safety record to the Staggers Act which deregulated the railroad industry in 1980 and the subsequent improving financial health of the industry. Has the industry, in fact, since the Staggers Act invested more in the track and right-of-way maintenance and spent more funding on activities that would contribute to greater safety?

ANSWER: Since the Staggers Rail Act of 1980, the railroads have made significant investments in rail plant and equipment. The most dramatic increases have been in capital expenditures for roadway and structures which, in 1984 - the most recent year for which industry-wide data are available, were up 35.6 percent over 1983.

Equipment expenditures have declined since 1980, reflecting higher efficiencies in car and locomotive utilization and surpluses of certain car types.

Roadway and structures capital expenditures in 1984 totalled $2.94 billion for the industry.

Prior to 1983, capital expenditures were reported under the betterment accounting system, and are not directly comparable to today's depreciation accounting totals.

CLASS ONE CAPITAL EXPENDITURES
(Millions of Dollars)

YEAR	TOTAL	EQUIPMENT	ROADWAY & STRUCTURES
1979	3,324	2,284	1,039
1980	3,621	2,346	1,275
1981	2,854	1,520	1,333
1982	1,975	713	1,262
1983	2,760	455	2,305
1984	3,744	806	2,938

Source: Association of American Railroads

GRANTS-IN-AID FOR RAIL SAFETY PROGRAM ACT

SENATOR CHILES: In view of the priority you place on rail safety, I was surprised to see that you've proposed the elimination of the Grants-in-Aid for railroad safety program. This program, as you know, goes to the State and pays half the salaries of State railway safety inspectors. I know this program has been very effective in the State of Florida. Additionally, I note that you propose a decrease in your research and development program which plays an important role in developing and considering additional safety regulations. What is your view with regard to these budget proposals and the impact they would likely have on overall rail safety?

ANSWER: It has become necessary, in the face of declining Federal resources, for us to reduce or eliminate funding for those programs for which Federal funding is not essential to their existence. To this end, FRA recommended no Federal funding of the Grants-in-Aid for Railroad Safety program in FY 83, 84, 85, 86 and 87. The enactment of the Gramm-Rudman-Hollings Deficit Reduction Act has further emphasized the need to cut Federal expenditures in order to reduce the deficit in both FY 1986 and FY 1987.

Eliminating the Federal funds for the State Grant-in-Aid program will not jeopardize the State program nor the overall FRA rail safety program. States are committed to the rail safety program with or without Federal funding. Most States (28 out of 31) currently participating would fully fund their railroad safety program with 70 of the current 104 inspectors in the absence of matching funds from FRA. It is more cost-effective to eliminate Federal aid to the States than from other FRA safety programs. It would cost each State $113,000 on average to pick up the Federal share (estimated at $3.5 million in FY 1987). Rail safety is FRA's top priority and the authorized Federal inspection force is fully qualified to meet the challenge. Railroad safety will not be compromised in the process, and the effective working relationship established between the States and FRA will continue.

Regarding the research and development program reductions, the requested Budget Authority in FY 1987 together with the funds from the FY 1986 program level, some of which continue into FY 1987, will permit the continuation of the high priority safety projects.

SENATOR CHILES: You are proposing to transfer $5,875,000 of unobligated balances to the Office of the Administrator to fund activities in the Office of the Administrator. Couldn't a portion of these funds be transferred to the Grants-in-Aid for Railway Safety programs to continue that program?

ANSWER: The $5,875,000 transfer to the Office of the Administrator appropriation is composed of $4,565,000 to partially fund Washington Union Station's rent, security and maintenance costs in FY 1987 totaling $4,620,000 and $1,310,000 is a transfer from Rail Service Assistance to fund the salaries and expenses of the positions previously funded in Rail Service Assistance. If any portion of these funds were transferred to the Grants-in-Aid program a comparable amount of appropriated funds would be required in FY 1987 to fund Washington Union Station and the people assigned to this account. The reason for these "planned" carryovers is to reduce the necessity of requiring appropriated funds.

ALCOHOL AND DRUG ABUSE RULE

SENATOR CHILES: I understand that your final alcohol and drug abuse rule for railroad employees has been published following a successful ruling by the Supreme Court and that you are now implementing it. This rule requires pre-employment testing for drugs and alcohol, as well as post-accident testing. What experience have you had with the rule since it has been implemented?

ANSWER: The rule was published on August 2, 1985, and was scheduled to go into effect, in part, on November 1, 1985. As a result of a temporary restraining order issued by the U.S. District Court for the Northern District of California, we missed our initial implementation date. That court went on to uphold the rule. We were again delayed by a stay order issued by the U.S. Court of Appeals for the Ninth Circuit. On January 27, 1986, the Supreme Court vacated that stay, and the rule became effective on February 10, 1986. Post-accident toxicological testing became mandatory on March 10, 1986, and pre-employment drug screens will be mandatory as of May 1, 1986. The litigation, which was brought by the Railway Labor Executives' Association, is pending in the Ninth Circuit.

Early indications suggest that the extensive publicity given the rulemaking and our program of regional seminars conducted in the fall of 1985 have been very effective in making employees aware of the new Federal prohibition on alcohol and drug use in railroad operations. At the outset, at least, awareness is high, and the rule appears to be having its intended deterrent effect. At the same time, the railroads appear to be exercising appropriate restraint in the use of reasonable cause testing authority. We have experienced a few problems in the post-accident testing area, but these derive from inexperience on the part of railroad officers learning the requirements of the rule. We are acting to correct that situation. Employee cooperation in post-accident testing has thus far been excellent.

It is important to understand that the initial effects of this program may also be temporary. We can draw lessons from programs designed to control drunk driving. Often these programs are launched with massive publicity and have an immediate effect on the actions of social drinkers, at least at the beginning. But when motorists perceive that enforcement is not as vigorous as had been expected, they may return to their old habits, albeit at a reduced incidence of driving while intoxicated. I think we have to be vigilant, while recognizing that this battle will be won only over the long term, with the sustained commitment of everyone concerned -- labor, management, and government.

SENATOR CHILES: Now that the FRA has implemented this rule, perhaps a similar rule should be put into place for other transportation modes; for example, some have argued that pilots and other critical airline employees should be required, also, to submit to alcohol and drug tests. Based on rulemaking experience which began, I understand, in June of 1983, what are your views with regard to similar rules being implemented for the aviation industry?

ANSWER: That is really a question that should be addressed to the Federal Aviation Administration. Under the leadership of Secretary Dole, all DOT modes have been re-evaluating the adequacy of their programs to ensure that vehicle operators and other personnel are free from the effects of alcohol and other drugs. The question is whether the entire mix of measures designed to promote fitness is accomplishing the job or whether a significant additional element of assurance can be achieved by reasonable, additional requirements. Each of these decisions will have to be made based on the needs of the particular transportation mode.

SENATOR CHILES: On April 15, the $32 million rescission that the administration requested for the redeemable preference program expires. I know that the Federal Railroad Administration has taken the position that since the authorization for this program expired, even if the funding is released and the rescission is not approved, there is a legal impediment to you actually spending the money as Congress had intended. I know you're seeking an opinion from the General Accounting Office on this issue. Explain for the Committee the legal problems you face in spending the money and when do you anticipate receiving the GAO reponse to your request for a legal opinion?

ANSWER: Although the 1986 Act authorizes the Secretary to expend the proceeds from the sale of notes to the Treasury, the Congress has not renewed the statutory authority (which expired on September 30, 1985) of the Secretary of Transportation to sell and the Secretary of the Treasury to buy the notes. See Sections 507(a) and 509(a) of the Railroad Revitalization and Regulatory Reform Act of 1976. Consequently, FRA counsel opined that there is mechanism by which the funds appropriated to Treasury can be transferred to the Secretary, and utilized hereafter, as "proceeds" from such sales.

The General Counsel of DOT requested that the Comptroller General provided an opinion on this issue. I have enclosed the GAO response, which provided that FRA does have the authority to expend 505 funds as provided by Congress. As I stated before the Subcommittee, since the GAO has ruled otherwise, you may be certain that FRA will work with current and prospective [illegible]cants to meet their funding requirements.

SENATOR CHILES: As you know, in last year's Continuing Resolution, $12.5 million was earmarked for the Tri-County Commuter Rail Project in Dade, Broward and Palm Beach Counties. Report language urged that consideration be given for another $4 million for this project to connect the southern terminus with the Metro Dade Rail System. I know that your office had meetings on this matter with Florida officials and FRA has provided comments on a section 505 loan application from the Tri-County Rail Organization. Could you tell the Committee where you stand on getting this project underway?

ANSWER: The project presently is in an early planning stage. It is our understanding that the work program and cost estimates for upgrading the Seaboard Rail System's line to handle the commuter traffic--prepared by a consultant about 1-1/2 years ago--have not yet been reviewed by the Seaboard. Also, the Florida Department of Transportation is just beginning discussions with the Seaboard regarding the project work and operating arrangements.

SENATOR CHILES: Are there any problems at the Federal, State and local levels which need to be resolved before the Federal funds authorized for this project can be obligated?

ANSWER: The negotiation of agreements between the Tri-County Rail Organization, the State and Seaboard is a critical issue. Also critical is the ability of the State to satisfy FRA that funds will be available to repay the loan.

SENATOR CHILES: Is there anything which this Committee, or the State of Florida, could do to expedite the paperwork and get this project to the construction stage?

ANSWER: The State, Seaboard and the Tri-County Rail Organization share the burden for getting the project work and operating arrangements in place. It is our understanding that State legislation may be needed to provide the assurance that funds will be available for repayment of the loan and that such legislation has been submitted for the Legislature's consideration.

SENATOR CHILES: Based on where you are today, would it be unreasonable to expect that within the next 3-4 months all the necessary paperwork for the project will have been completed and Federal funding made available for the project?

ANSWER: A great deal will depend on how fast the State, the railroad and the Tri-County Rail Organization will be able to complete their planning. A period of 3-4 months is not impossible but realistically, more time is likely to be needed for a full resolution of all issues involved.

AMTRAK: ADMINISTRATION PROPOSAL TO TERMINATE

SENATOR CHILES: Included in your budget justification is a statement that the Federal government will assume no responsibility for the labor protection costs that would be associated with the termination of Amtrak service, which would total over $2 billion. The salvage value for Amtrak equipment is estimated to be far short of meeting labor protection requirements, so clearly a bankrupt Amtrak could not make these labor protection payments. I know that Graham Claytor does not concur in the position that the Federal government would have no responsibility in picking up these labor protecion costs. What leads you to believe that the Federal government would have no responsibility for labor protection costs?

ANSWER: The Department firmly believes that the original Congressional action to establish Amtrak as a separate and independent corporation to operate rail passenger service should continue to be respected. See National Railroad Passenger Corporation v. Atchison, Topeka and Santa Fe Ry., 53 U.S.L.W. 4285 (1985). Section 301 of the Rail Passenger Service Act (RPSA) states that Amtrak "will not be an agency or establishment of the U.S. Government." 45 U.S.C. 541. Congress long ago rejected the option of having the Federal government provide rail passenger service directly through the Department of Transportation or some other Federal agency. In addition, in section 405(c) of the Rail Passenger Service Act, Congress directed that labor protection benefits would be provided by Amtrak. Although Congress clearly could have done otherwise, the resources and responsibility of the Federal government were deliberately not placed behind this obligation. As the Supreme Court reasoned with respect to a similar attempt to implicate the United States in Amtrak's contractual obligations, "the United States expressly declined to offer assurances about future activity when it reserved the right to revoke or repeal the Act." Id. at 4290.

The structure of the National Railroad Passenger Corporation as an independent entity to be operated as a for-profit corporation confirms the wall of separation Congress set up between Amtrak and the United States when Amtrak was first established. The Supreme Court's reasoning on this point, we believe, renders irrelevant the fact that the United States has funded Amtrak's deficit and has directed Amtrak to enter into labor protection agreements. The statutory language simply belies any legitimate expectation that the labor protection benefits were to be other than those that could be provided by Amtrak, and we see no present basis for upsetting or changing Congress' original determination.

We note that the Comptroller General of the United States has also concluded in an opinion dated March 18, 1985 that the United States would not be legally liable to pay labor protection costs resulting from a discontinuance of rail passenger service by Amtrak. The Comptroller General reached this conclusion even without the benefit of the Supreme Court's decision in National Railroad Passenger Corporation v. Atchison, Topeka and Santa Fe Ry. which strongly supported the principle that Amtrak is a separate and independent entity.

SENATOR CHILES: Included in your fiscal year request is $4,620,000 for Washington Union Station rent and maintenance. $3,500,000 of that total is for rent and the balance is for maintenance, operation, and security services. In view of the fact that your are proposing the termination of Amtrak, why are you requesting funds to continue Union Station activities in fiscal year 1987?

ANSWER: The reasons are several. First, the United States has the obligation to pay $3.5 million in rent to the owners of the station annually until 2001 whether Amtrak exists or the station is redeveloped, or not. That is a legacy from the National Visitor Center. The Department of the Interior entered into that lease and we have inherited it. Having possession of a building on the National Register of Historic Places, we are obliged to maintain it. The funds we are seeking are for those obligations that pre-existed the decision to redevelop Union Station. So, whether or not the United States continues to subsidize Amtrak, those funds should be appropriated and spent.

Beyond those considerations, though, Union Station should be redeveloped whether or not the United States continues to subsidize Amtrak and it can be. Union Station is a national landmark sitting at the foot of Capitol Hill and fronting on an extension of the Mall. We have arrested its deterioration and put in place a program to restore it to its former glory while taking it off of the Federal budget. While the redevelopment has been planned as a train station supported by a large specialty retail center, it could be modified, if Amtrak ceased to exist and passenger service in the Northeast Corridor stopped, to be purely a specialty retail and office development in a marvelous historic building.

CONRAIL: HIGHER SALES PRICE

SENATOR CHILES: Conrail sales legislation is now being considered in the House and there is a strong indication that a higher sales price will be required by the House. What happens if the House requires a higher sales price? Would the Department need to start over and solicit new bids? Last year Conrail made profits of $442 million and as you know, starting in Fiscal Year 1987, if Conrail is not sold, they must begin to make payments of $250,000,000 to the Federal Government to begin to repay their Federal debt. What do you see being the impact on Conrail if they are required to make those $250,000,000 annual payments.

ANSWER: The Department, in good faith has negotiated a Memorandum of Intent with Norfolk Southern with regards to purchase price, public interest covenants and other terms deemed necessary and appropriate to properly consummate the transaction. Congress should not consider purchase price alone. The value to the public received from the negotiated covenants are substantial and assure maintenance of "essential" rail service in the northeast as mandated under NERSA.

I must point out to the Committee that only NS brings to the table a strong corporate parent, an ability to enhance Conrail's weak coal base, and an ability to substantially alter Conrail's north-south weakness so as to effectively compete with truck traffic. If Congress modifies any aspect of the terms, e.g., purchase price, NS would then be placed in a position of accepting or rejecting the terms, as would Morgan Stanley or Allen and Company. It is inappropriate to speculate what NS or any other bidder might do but certainly we would expect NS to reevaluate the package, including commitments made to states and other rail carriers, on a total return basis and determine if the deal makes corporate economic sense.

We believe that bidders would review any change by Congress as a "counter offer" and the deal would be voidable at the discretion of the bidder.

If Conrail remains under Government ownership they must begin to make payments to the Federal Government to repay their Federal debt. We have based our calculations of the payments on Conrail's actual 1985 results, 1986 Budget, June 7, 1985 projections for the period 1987-1989, the terms of Conrail's Articles of Incorporation, and the Financing Agreement between USRA and Conrail. Our calculations indicate that Conrail would make the following cash interest and/or dividend payments to the Government on April 30 each year based on the prior year's earnings (current $ in millions):

1985	1987	1988	1989
-0-	-0-	83.7	265.7

If net income is projected to 1995 by assuming Conrail's 1989 net income for the years 1990-95, and Conrail pays no Federal income taxes over this period the following interest and dividends result:

1990	1991	1992	1993	1994	1995
277.7	277.7	277.7	277.7	277.7	277.7

Payments at this level would exceed Conrail's positive cash flow (before these payments) and reduce Conrail's projected cash balance to a dangerously low level of $243 million by the end of 1995. Its cash would decline to a level below $500 million in 1994. Conrail's annual cash flow would be as follows (current $ in millions):

	1988	1989	1990	1991-95
Cash increase before interest/ dividends	118	138*	138*	138*
Interest/Dividends	(83.7)	(265.7)	(277.7)	(277.7)
Cash Increase (decrease) after payment of interest/dividends	34.3	(127.7)	(139.7)	(139.7)

*This calculation makes the simpliying assumption that Conrail's "most likely" 1989 projections (the last year of the most recent five-year plan) carry on at the same rate indefinitely.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

RAILROAD SAFETY RESEARCH AND DEVELOPMENT

SENATOR HATFIELD: In the Senate Appropriations Committee report which accompanied H.R. 3244, the FY 86 Transportation and Related Agencies Appropriations bill, the Committee directed FRA to provide $320,000 to the Oregon Graduate Center (OGC) for research into the maintenance and repair of railroad components. This report language was reaffirmed in the Conference Report for the FY 86 Continuing Resolution. To date, no monies have been provided nor have any contracts been signed with OGC. Does FRA intend to honor the earmarking by the Conference Committee of available funds to OGC for the maintenance and repair of railroad related components?

ANSWER: The FRA intends to honor the Committee's earmarking of funds to the Oregon Graduate Center (OGC) for railroad safety research purposes.

SENATOR HATFIELD: If so, does FRA intend to make available the $320,000 earmarked in the Conference Committee Report? If not, please provide to the Committee the funding level to be provided and an explanation for the lower figure.

ANSWER: The FRA will make available $306,240 of the FY 1986 appropriation for research at the OGC. The reduction in funds from the original $320,000 reflects the 4.3 percent Gramm-Rudman-Hollings Act reduction required for FY 1986.

SENATOR HATFIELD: Please provide an explanation to the Committee for why these funds have not yet been made available to OGC in the face of the Committee's specific earmark.

ANSWER: Technical discussions with OGC have already been underway for some time on the specific nature and scope of the proposed research activity. Since the earmarking affected three of the DOT's modal administrations, the Office of the Secretary desired to coordinate the activity. The Transportation Systems Center will implement the funding to to OGC.

SENATOR HATFIELD: When will FRA make these funds available to OGC? If it cannot be done within 30 days of the hearing, please explain to the Committee, specifically why this time frame cannot be met, and provide a time certain for when this will be accomplished.

ANSWER: The FRA will act promptly to transfer the funds to the Transportation Systems Center. The timetable of the actual transfer of funds to OGC will be determined by how quickly the procurement process can be progressed.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SEPTA SAFETY REVIEW

SENATOR SPECTER: In 1985, FRA issued a report that was critical of SEPTA's safety record. What has occurred since that report and what is your evaluation of the current status of SEPTA safety?

ANSWER: The assessment conducted during 1985 focused on each part of SEPTA operations. Particular attention was given to "people programs" such as training and instruction of employees and supervisors, drug and alcohol program, organization structure and emergency programs and procedures.

Items of concern were brought to the attention of SEPTA officials at the time of the assessment and corrective action was taken without delay on those items which were an immediate danger.

From February 24 to March 7, 1986, FRA field personnel conducted followup activities. A report of these findings is being prepared. Generally, the report will indicate that SEPTA is taking positive steps to improve their safety performance.

AMTRAK

SENATOR SPECTOR: You and Mr Claytor have stated that Amtrak cannot run without subsidies. What alternatives have you explored and developed for having the services provided by Amtrak replaced by other entities?

ANSWER: We have explored several alternatives for continuing Amtrak service. Each alternative has focused on opportunities for reducing operating costs and increasing revenues. We have also examined what would happen if the corporation was forced to declare bankruptcy. The future of the corporation is in the hands of its stakeholders; service will continue if management and labor will agree on cost cutting measures, and if the States will cover the remaining deficit.

SUBCOMMITTEE RECESS

Senator ANDREWS. The committee now stands in recess until our next hearing at 10 a.m., April 16 when we will hear from the Coast Guard.

Thank you very much.

[Whereupon, at 12:10 p.m., Wednesday, April 9, the subcommittee was recessed, to reconvene Wednesday, April 16.]

DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, APRIL 16, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 11:03 a.m. in room SD–138, Dirksen Senate Office Building, Hon. Mark Andrews (chairman) presiding.

Present: Senators Andrews, Abdnor, D'Amato, and Chiles.

DEPARTMENT OF TRANSPORTATION

U.S. COAST GUARD

STATEMENT OF ADM. JAMES S. GRACEY, COMMANDANT

ACCOMPANIED BY:
VICE ADM. BENEDICT L. STABILE, VICE COMMANDANT
REAR ADM. DONALD C. THOMPSON, CHIEF OF STAFF
CAPT. JOHN C. TRAINOR, CHIEF, PROGRAM DIVISION
CAPT. KENT H. WILLIAMS, CHIEF, BUDGET DIVISION

OPENING REMARKS

Senator ANDREWS. The subcommittee will come to order. This morning we are hearing the U.S. Coast Guard witnesses, led off by Admiral Gracey, the Commandant.

Good to have you with us, Admiral, with your people. We would be glad to hear your statement. You can summarize it if you wish and we can assure you that it will be in the record as though you uttered every word.

INTRODUCTION OF ASSOCIATES

Admiral GRACEY. Thank you, Senator. I do have a summary that I would like to give, if I may.

First, let me tell you who I have with me this morning, Senator. On my far right is Vice Adm. Ben Stabile, the Vice Commandant; and on my far left is Rear Adm. Deese Thompson, the Chief of Staff, soon to become the Commander of the Atlantic Area in New York, I hope; on my right is Capt. Jack Trainor, Chief of the Programs Division; and on my left, Capt. Kent Williams, the Chief of the Budget Division.

FISCAL YEAR 1986 BUDGET UPDATE

First, sir, an update on fiscal year 1986, a most difficult year. Problems started with the proposal to cut $230 million from our operating expenses. That was later reduced to $30 million. That reduction was added across the board with Gramm-Rudman-Hollings reductions and other budget shortfalls, like an unfunded pay raise, which left us $142 million below the President's budget.

Now, that is less than the cuts which were originally considered, which would have had a disastrous effect on the Coast Guard, but it has had a significant impact nonetheless.

We have now made our way through the first half of fiscal year 1986, and as we enter the second half there is some hope that we can bridge the gap between 1985 and 1987 without major closures, thanks to a number of actions.

First was a restoration of most of the originally proposed cuts in our operating expense program levels. The second was one I initiated early in the fiscal year. After the Senate vote to cut $230 million, I ordered a "squeeze-down/slow-down" policy into effect. My general guidance, although there were considerable specifics to go with it, was to "spend not one penny you do not absolutely have to to avoid interrupting truly essential service to the public."

Later, faced with Gramm-Rudman-Hollings reductions and the shortfalls I mentioned before, I continued that policy and it remains in effect today. I expect it will continue for the entire year. The policy does not really save money. What it really does, primarily, is defer spending.

The inventories we are depleting now will have to be replenished later. The training we are delaying now will have to be provided later. The maintenance we are deferring now will have to be done sometime. As such, squeeze-down/slow-down is at best a temporary measure for a high-tempo, personnel-intensive operating agency like the Coast Guard. It is a policy we cannot sustain for long without either getting some budget relief or laying up some of our units.

The avoidance of such layups prompted the latest action, which was a no-cost supplemental request submitted by the President on March 26 for an additional $35.5 million for Coast Guard operating expenses, to be augmented by an additional $10.4 million transferred internally from our AC&I appropriation.

The net result of these actions is that the Coast Guard will be able to hang on to make it through fiscal year 1986 if the actions I described occur. But it will be close. We really need the supplemental fiscal year 1986 funding that is now under consideration by the Congress, and of course we will need your continued support through approval of the President's fiscal year 1987 budget request to return us to an adequate operating level.

Further, I sincerely hope it will be possible to avoid another round of across-the-board Gramm-Rudman-Hollings cuts. After our struggle this year, such a reduction would have a really serious impact on the Coast Guard.

FISCAL YEAR 1987 BUDGET REQUEST

Our overall 1987 request is for about $2.4 billion in budget authority. It will provide full-time equivalent positions of 38,541 military personnel and about 5,527 civilians. While it appears to be an increase of $162 million, the fiscal year 1987 budget is really a no-growth budget. It will fund essentially the same program levels as the President's fiscal year 1987 original budget request.

OPERATING EXPENSES

The operating expenses appropriation request for $1.833 billion essentially returns us to our fiscal year 1985 level of operation. The total amount for operating expenses will be augmented by $30 million, to be derived from the boat safety account under legislation that we are proposing.

Our operating expenses appropriation is our most important appropriation. It funds the operation and maintenance of all our facilities. It pays the salaries and expenses of our personnel—and we are a personnel-intensive organization. It is the life blood of Coast Guard operations, of our ability to serve.

So when you look at our 1987 budget request and compare it to 1986, please do not be misled by the apparently large increase in budget authority. The Coast Guard's budget is not growing significantly. Instead, the differences you see result largely from the unique one-time transfers used to finance our fiscal year 1986 operations which have the effect of understating our budget requirements for that year.

When in fiscal year 1987, these activities are returned to our budget base, the result is to introduce large variances that distort year-to-year comparisons.

The point I am trying to make is this: After allowing for all the necessary but sometimes confusing accounting adjustments, fiscal year 1987 is a no-growth budget, one that will permit us to continue to perform the same levels of operations as in past years, that is, before 1986.

Please see these numbers for what they really are: A return of funding to our base, not an increase.

ACQUISITION, CONSTRUCTION, AND IMPROVEMENTS

The AC&I appropriation request for $77.1 million in budget authority, together with amounts proposed for reprogramming from the coastal defense augmentation account, created in DOD in 1986, will fund some vital ongoing programs and a few shore station upgrades.

RESERVE TRAINING

The Reserve Training Program proposed at $65.2 million will support the Selective Reserve at a new level of 13,000 people. This 500 increase is well-justified considering our growing maritime defense zone responsibilities.

The Coast Guard Reserve is a valuable contributor to our national security, especially in the areas of strategic mobility. Port security and other maritime defense zone activities are also part of their role.

It is also a cost-effective asset in support of peacetime Coast Guard missions, and its personnel are available for national emergency or domestic disaster.

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION

The research, development, test, and evaluation request totaling $20.5 million is consistent with the level appropriated in fiscal year 1986. It is directed toward improving the execution of existing missions and programs, along with developing the capabilities anticipated to be needed for future mission requirements. It offers the opportunity for increased returns in future years to enhance productivity or cost avoidance.

BOATING SAFETY

The boating safety request for $45 million would continue the funding level at the amount appropriated for fiscal year 1986, but, as noted earlier, we propose legislation which would make $30 million available for use in the Coast Guard operating expenses appropriation with the other $15 million going to help the States.

Once again this year, our request proposes a system of user fees, but we are not going to ask for new legislation. The legislation submitted last year effectively covers the administration's proposal for those fees.

If it were to be passed this year, its implementation in 1987 would provide revenues of $238 million and in subsequent years $476 million.

FOCUS OF FISCAL YEAR 1987 BUDGET REQUEST

In conclusion: I have highlighted major parts of our 1987 budget request which represent another hold-the-line type of budget. However, we are going to try for productivity improvements, increased efficiencies and more effective use of our resources, including the new and improved resources acquired as a result of recent major capital investment.

Those investments will make the Coast Guard even more productive in the years to come and better able to serve the American people. As the budget shows, the President strongly supports the Coast Guard and the benefits and services it provides to the public.

Even in these difficult fiscal times, the Coast Guard will continue to serve this Nation proudly and well. At times, it may be in fewer locations, maybe with fewer people and resources, but be there it will, and with its essential character unchanged, still doing its primary missions of marine safety, defense readiness, and maritime law enforcement the best it can and, Mr. Chairman, that best is without equal anywhere.

That concludes my statement, sir. Thank you.

PREPARED STATEMENT

Senator **Andrews**. Thank you, Admiral, for your summary remarks. We have your complete statement and it will be placed in the record.

[The statement follows:]

STATEMENT OF ADM. JAMES S. GRACEY

MR. CHAIRMAN, I AM PLEASED TO HAVE THIS OPPORTUNITY TO MEET WITH YOU AND OTHER MEMBERS OF THIS SUBCOMMITTEE TO REVIEW AND DISCUSS THE COAST GUARD FISCAL YEAR 1987 BUDGET REQUEST. ACCOMPANYING ME ARE THE VICE COMMANDANT, VICE ADMIRAL BENEDICT STABILE; MY CHIEF OF STAFF, REAR ADMIRAL DONALD THOMPSON; THE CHIEF OF THE PROGRAMS DIVISION, CAPTAIN JOHN TRAINOR; AND THE CHIEF OF THE BUDGET DIVISION, CAPTAIN KENT WILLIAMS.

FY 1986 BUDGET UPDATE

BEFORE DISCUSSING OUR FY 1987 REQUEST, I WOULD LIKE TO PROVIDE YOU WITH AN UPDATE ON FY 1986. AS YOU MAY RECALL, THE COAST GUARD SPENT THE FIRST SEVERAL MONTHS OF THIS FISCAL YEAR CONCERNED AND ANXIOUS OVER WHETHER IT WOULD HAVE THE RESOURCES NECESSARY TO CONTINUE TO PERFORM ITS TRADITIONAL MISSIONS ON BEHALF OF THIS NATION AND THE AMERICAN PUBLIC. THESE CONCERNS ORIGINATED WITH THE SENATE PROPOSAL TO CUT $230 MILLION FROM OUR OPERATING EXPENSES APPROPRIATION. THAT WAS LATER REDUCED TO $30 MILLION. TO THAT REDUCTION WAS ADDED ACROSS-THE-BOARD GRAMM-RUDMAN-HOLLINGS REDUCTIONS, AND OTHER BUDGET SHORTFALLS, SUCH AS AN UNFUNDED MILITARY PAY RAISE, LEAVING THE COAST GUARD $142 MILLION BELOW THE PRESIDENT'S BUDGET. THAT IS LESS THAN THE CUTS ORIGINALLY CONSIDERED, WHICH WOULD HAVE HAD A DISASTROUS IMPACT ON THE COAST GUARD, BUT IT HAS HAD A SIGNIFICANT IMPACT NONETHELESS. HOWEVER, WE HAVE NOW MADE OUR WAY THROUGH THE FIRST HALF OF FY 1986 AND, AS WE ENTER THE SECOND HALF, SOME OF THE ANXIETIES ARE BEGINNING TO SUBSIDE...THANKS TO A NUMBER OF ACTIONS...SOME ALREADY IN PLACE AND OTHERS STILL PENDING.

THE FIRST OF THESE ACTIONS WAS THE SIGNIFICANT RESTORATION OF MOST OF THE ORIGINALLY PROPOSED CUTS IN OUR OPERATING EXPENSES PROGRAM LEVELS. THIS WAS DONE THROUGH A COMBINATION OF UNIQUE FUNDING ARRANGEMENTS SUCH AS TRANSFERS OF UNOBLIGATED BALANCES

AND THE FUNDING OF OUR DEFENSE READINESS FUNCTION FROM NAVY'S OPERATING AND MAINTENANCE APPROPRIATION.

THE SECOND OF THESE ACTIONS WAS ONE I INITIATED EARLY IN THE FISCAL YEAR WHEN WE WERE OPERATING UNDER A CONTINUING RESOLUTION AND STILL FACING A POSSIBLE $230 MILLION CUT IN FUNDING. I ORDERED A "SQUEEZE DOWN/SLOW DOWN" POLICY INTO EFFECT. MY GENERAL GUIDANCE WAS TO "SPEND NOT ONE PENNY YOU DON'T ABSOLUTELY HAVE TO TO AVOID INTERRUPTING TRULY ESSENTIAL SERVICE TO THE PUBLIC." IN VIEW OF THE SUBSEQUENTLY IMPOSED GRAMM-RUDMAN-HOLLINGS REDUCTIONS, AND THE SHORTFALLS REFLECTED IN THE CONTINUING RESOLUTION, I HAVE CONTINUED THAT POLICY. IT REMAINS IN EFFECT TODAY...AND I EXPECT IT TO CONTINUE FOR THE ENTIRE YEAR. YET, THAT POLICY DOES NOT REALLY "SAVE" MUCH MONEY. MORE ACCURATELY WHAT IT DOES IS POSTPONE SPENDING. HOWEVER, THE INVENTORIES WE ARE DEPLETING NOW WILL STILL HAVE TO BE REPLENISHED LATER; THE TRAINING WE ARE DELAYING NOW WILL STILL HAVE TO BE PROVIDED LATER; THE MAINTENANCE WE ARE DEFERRING NOW WILL STILL HAVE TO BE ACCOMPLISHED LATER. AS SUCH, "SQUEEZE DOWN/SLOW DOWN" IS AT BEST A TEMPORARY MEASURE FOR A HIGH TEMPO, PERSONNEL-INTENSIVE, OPERATING AGENCY SUCH AS THE COAST GUARD. IT IS A POLICY WE CANNOT SUSTAIN LONG, WITHOUT EITHER GETTING SOME BUDGET RELIEF OR LAYING UP SOME OF OUR UNITS.

THE AVOIDANCE OF SUCH LAY-UPS PROMPTED THE LATEST ACTION: A "NO COST" SUPPLEMENTAL REQUEST SUBMITTED BY THE PRESIDENT ON MARCH 26, 1986, FOR AN ADDITIONAL $35.5 MILLION FOR COAST GUARD OPERATING EXPENSES. THAT AMOUNT WILL BE AUGMENTED BY AN ADDITIONAL $10.4 MILLION TO BE TRANSFERRED INTERNALLY FROM OUR ACQUISITION, CONSTRUCTION, AND IMPROVEMENTS APPROPRIATION, USING THE SPECIAL AUTHORITY UNDER OUR AUTHORIZATION ACT FOR THE FIRST TIME AND IN ITS MAXIMUM AMOUNT.

THE NET RESULT OF THE ACTIONS I HAVE JUST DESCRIBED IS THAT I AM

ABLE TO APPEAR BEFORE YOU THIS MORNING AND SAY THAT THE COAST GUARD WILL BE ABLE TO HANG ON...TO MAKE IT THROUGH FISCAL YEAR 1986...IF THE ACTIONS I DESCRIBED OCCUR. BUT, IT WILL BE CLOSE. WE DEFINITELY NEED THE SUPPLEMENTAL FY 1986 FUNDING NOW UNDER CONSIDERATION BY THE CONGRESS...AND WE WILL ALSO NEED YOUR CONTINUED SUPPORT...THROUGH APPROVAL OF THE PRESIDENT'S FY 1987 BUDGET REQUEST TO RETURN US TO ADEQUATE OPERATING LEVELS. FURTHER, I SINCERELY HOPE IT WILL BE POSSIBLE TO AVOID ANOTHER ROUND OF ACROSS-THE-BOARD GRAMM-RUDMAN-HOLLINGS CUTS. AFTER OUR STRUGGLE THIS YEAR, SUCH REDUCTIONS WOULD HAVE A SERIOUS IMPACT ON THE COAST GUARD.

FY 1987 TOTAL BUDGET REQUEST

OUR OVERALL FY1987 REQUEST, TOTALING ABOUT $2.4 BILLION IN BUDGET AUTHORITY, ALLOWS A CONTINUATION OF PLANS TO MODERNIZE AND IMPROVE THE EFFECTIVENESS OF THE COAST GUARD'S CAPITAL PLANT; TO INCREASE THE CAPABILITY OF EXISTING RESOURCES; AND TO ACHIEVE SAVINGS THROUGH IMPROVED EFFICIENCY OF OPERATIONS AND, WHERE FEASIBLE, CONTINUED CONTRACTING OUT OF SUPPORT ACTIVITIES. THIS REQUEST...LIKE OUR REQUESTS IN RECENT YEARS...CONTINUES TO EMPHASIZE MISSIONS SUPPORTING SAFETY, DEFENSE READINESS, AND MARITIME LAW ENFORCEMENT.

FUNDING REQUESTED FOR FY 1987 WILL PROVIDE FOR FULL-TIME EQUIVALENT (FTE) POSITIONS FOR 38,541 MILITARY PERSONNEL AND 5,527 CIVILIAN PERSONNEL COMPARED TO FY1986 FTE's OF 39,189 AND 5,571, RESPECTIVELY.

BECAUSE OF SOME UNIQUE FUNDING TRANSFERS IN FY 1986, AND GRAMM-RUDMAN-HOLLINGS REDUCTIONS, THIS YEAR'S REQUEST SHOWS AN APPARENT OVERALL INCREASE OF $162 MILLION IN BUDGET AUTHORITY. NEVER-THE-LESS, IT IS A NO-GROWTH BUDGET AND WILL FUND ESSENTIALLY THE SAME PROGRAM LEVELS AS THE PRESIDENT'S FY 1986 BUDGET REQUEST. PART OF THE INCREASE IN FY 1987 BUDGET AUTHORITY REFLECTS A RETURN TO

THE COAST GUARD'S BUDGET BASE OF $25.5 MILLION OF THE FIXED COSTS ASSOCIATED WITH POLAR ICEBREAKING OPERATIONS. THESE COSTS WERE FUNDED PREVIOUSLY THROUGH REIMBURSEMENTS. THE INCREASE ALSO REFLECTS RESTORATION TO THE COAST GUARD'S BUDGET BASE OF $100 MILLION FOR DEFENSE READINESS FUNDED BY THE DEPARTMENT OF DEFENSE, NAVY, OPERATIONS AND MAINTENANCE IN 1986. THE INCREASE ALSO INCLUDES FUNDING FOR THE FY 1987 IMPACT OF THE FY 1986 MILITARY PAY AND ENTITLEMENTS INCREASES.

OPERATING EXPENSES

THE OPERATING EXPENSES APPROPRIATION REQUEST FOR $1.833 BILLION ESSENTIALLY RETURNS US TO OUR FY 1985 LEVEL OF OPERATIONS AND FUNDS THE OPERATION AND MAINTENANCE OF COAST GUARD SHIPS, AIRCRAFT, AND SHORE UNITS, INCLUDING FACILITIES ACQUIRED THROUGH CAPITAL INVESTMENTS IN RECENT YEARS. OF THESE NEW ACQUISITIONS, FUNDING WILL PROVIDE FOR OPERATION OF THE FIRST OF THE COAST GUARD OWNED AEROSTATS...MOBILE, TETHERED-BALLOON, RADAR SURVEILLANCE SYSTEMS...FOR USE IN OUR DRUG INTERDICTION EFFORT. ALSO, IN FY 1987 WE WILL PUT INTO SERVICE 2 MORE OF OUR NEW 270 FOOT MEDIUM ENDURANCE CUTTERS AND 5 MORE OF OUR NEW 110-FOOT PATROL BOATS, AS WELL AS 26 REPLACEMENT SHORT-RANGE RECOVERY (SRR) HELICOPTERS.

IN ADDITION, THE TOTAL AMOUNT FOR OPERATING EXPENSES WILL BE AUGMENTED BY $30 MILLION TO BE DERIVED FROM THE BOAT SAFETY ACCOUNT. UNDER EXISTING LAW, $15 MILLION IS THE MAXIMUM AMOUNT THAT CAN BE TRANSFERRED BETWEEN THESE TWO APPROPRIATIONS. HOWEVER, WE ARE PROPOSING LEGISLATION TO INCREASE THAT AUTHORITY TO $30 MILLION.

OUR OPERATING EXPENSES APPROPRIATION IS OUR MOST IMPORTANT APPROPRIATION. IT FUNDS THE OPERATION AND MAINTENANCE OF ALL OUR FACILITIES. IT PAYS THE SALARIES AND EXPENSES OF OUR PERSONNEL. IT IS THE LIFEBLOOD OF COAST GUARD OPERATIONS...OF OUR ABILITY TO

SERVE. WHEN YOU LOOK AT OUR FY 1987 BUDGET REQUEST...AND COMPARE IT TO FY 1986...PLEASE DON'T BE MISLED BY THE APPARENTLY LARGE INCREASE IN OUR BUDGET AUTHORITY. THE COAST GUARD'S BUDGET IS NOT GROWING SIGNIFICANTLY. INSTEAD, THE DIFFERENCES YOU SEE RESULT LARGELY FROM THE UNIQUE, ONE-TIME TRANSFERS USED TO FINANCE OUR FY 1986 OPERATIONS, WHICH HAVE THE EFFECT OF UNDERSTATING OUR BUDGET REQUIREMENTS FOR THAT YEAR. WHEN, AS IN FY 1987, THESE ACTIVITIES ARE RETURNED TO OUR BUDGET BASE, THE RESULT IS TO INTRODUCE LARGE VARIANCES THAT DISTORT YEAR-TO-YEAR COMPARISONS OF OUR BUDGET AUTHORITY.

THE POINT I'M TRYING TO MAKE IS...THAT AFTER ALLOWING FOR ALL THE NECESSARY BUT SOMETIMES CONFUSING ACCOUNTING ADJUSTMENTS...FY 1987 IS A NO-GROWTH BUDGET...ONE THAT WILL PERMIT US TO CONTINUE TO PERFORM THE SAME LEVELS OF OPERATIONS AS IN PAST YEARS. PLEASE SEE THESE NUMBERS FOR WHAT THEY REALLY ARE...A RETURN OF FUNDING TO OUR BASE...NOT AN INCREASE.

ACQUISITION, CONSTRUCTION AND IMPROVEMENTS

THE ACQUISITION, CONSTRUCTION AND IMPROVEMENTS APPROPRIATION REQUEST FOR $77.1 MILLION IN BUDGET AUTHORITY IS $130 MILLION BELOW THE FY 1986 LEVEL. HOWEVER, TOGETHER WITH AMOUNTS PROPOSED FOR REPROGRAMMING FROM THE COASTAL DEFENSE AUGMENTATION ACCOUNT CREATED IN DOD IN 1986, IT WILL FUND CAPITAL IMPROVEMENTS, INCLUDING AIRCRAFT PROCUREMENTS; CUTTER ACQUISITIONS, REHABILITATIONS, AND MODERNIZATION; AND REPLACEMENT AND RENOVATION PROGRAMS AT SELECTED SHORE FACILITIES.

THIS COMBINED FUNDING IS REQUIRED FOR THE CONSTRUCTION OF A NEW RIVER TENDER AS WELL AS THE CONTINUED RENOVATION OF BOTH THE 210-FOOT MEDIUM ENDURANCE AND THE 378 FOOT HIGH ENDURANCE CLASSES OF CUTTERS. 10 OF 13 OF THE NEW 270 FOOT CLASS OF CUTTERS AND 78 OF THE 96 NEW, REPLACEMENT, SHORT-RANGE RECOVERY (SRR) HELICOPTERS

WILL HAVE BEEN DELIVERED BY THE END OF FY 1987. MODERNIZATION OR REPLACEMENT OF OBSOLETE SHORE FACILITIES WILL ALSO CONTINUE.

ALTERATION OF BRIDGES

NO FUNDS ARE BEING REQUESTED FOR ALTERATION OF BRIDGES FOR FY 1987.

RETIRED PAY

THE RETIRED PAY APPROPRIATION REQUEST OF $354 MILLION IS BASED UPON AN AVERAGE OF 24,673 ANNUITANTS ON THE ROLLS. THE REQUEST REFLECTS THE PRESIDENT'S LEGISLATIVE PROPOSAL TO FOREGO COST-OF-LIVING ADJUSTMENTS IN 1987 FOR ALL SUCH RETIREMENT PROGRAMS.

RESERVE TRAINING

THE RESERVE TRAINING PROGRAM, PROPOSED AT $65.2 MILLION, WILL SUPPORT THE SELECTED RESERVE AT A NEW LEVEL OF 13,000 PEOPLE. THIS 500 INCREASE IS WELL JUSTIFIED, CONSIDERING OUR GROWING MARITIME DEFENSE ZONE RESPONSIBILITIES. THE COAST GUARD RESERVE IS A VALUABLE CONTRIBUTOR TO OUR NATIONAL SECURITY, ESPECIALLY IN THE AREAS OF STRATEGIC MOBILITY, PORT SECURITY AND OTHER MARITIME DEFENSE ZONE ACTIVITIES. IT IS ALSO A COST-EFFECTIVE ASSET IN SUPPORT OF PEACETIME COAST GUARD MISSIONS AND ITS PERSONNEL ARE AVAILABLE FOR NATIONAL EMERGENCY OR DOMESTIC DISASTER.

RESEARCH, DEVELOPMENT, TEST & EVALUATION

THE RESEARCH, DEVELOPMENT, TEST AND EVALUATION REQUEST TOTALING $20.5 MILLION IS CONSISTENT WITH THE LEVEL APPROPRIATED IN FISCAL YEAR 1986. THIS APPROPRIATION IS DIRECTED TOWARDS IMPROVING THE EXECUTION OF EXISTING MISSIONS AND PROGRAMS ALONG WITH DEVELOPING THE CAPABILITIES ANTICIPATED FOR FUTURE MISSION REQUIREMENTS. RESEARCH AND DEVELOPMENT OFFERS THE OPPORTUNITY FOR INCREASED RETURNS IN FUTURE YEARS THROUGH ENHANCED PRODUCTIVITY OR COST AVOIDANCES.

BOAT SAFETY ACCOUNT

THE BOATING SAFETY REQUEST IS FOR $45 MILLION. THIS CONTINUES THE FUNDING LEVEL AT THE AMOUNT APPROPRIATED FOR FISCAL YEAR 1986. HOWEVER, AS NOTED EARLIER, PROPOSED LEGISLATION WOULD MAKE $30 MILLION AVAILABLE FOR USE IN THE OPERATING EXPENSES

APPROPRIATION AND THE OTHER $15 MILLION AVAILABLE FOR FINANCIAL ASSISTANCE TO STATES.

OTHER FUNDS

FOR THE POLLUTION FUND $7 MILLION IN PERMANENT AUTHORITY IS REQUESTED, AS IT HAS BEEN IN PREVIOUS YEARS. FOR THE OFFSHORE OIL POLLUTION COMPENSATION FUND AND THE DEEPWATER PORT LIABILITY FUND, $1 MILLION IS REQUESTED FOR EACH APPROPRIATION ALONG WITH A MAXIMUM OBLIGATION LIMIT IN THESE TWO FUNDS OF $60 MILLION AND $50 MILLION, RESPECTIVELY.

USER FEES

OUR REQUEST THIS YEAR AGAIN PROPOSES A SYSTEM OF USER FEES. HOWEVER, NO NEW USER FEE LEGISLATION WILL BE SUBMITTED. H.R. 1936 EFFECTIVELY COVERS THE ADMINISTRATION'S PROPOSAL FOR SUCH FEES. ENACTMENT OF THAT LEGISLATION IN 1986 AND ITS IMPLEMENTATION IN 1987 WOULD PROVIDE REVENUES OF $238 MILLION IN 1987 AND $476 MILLION ANNUALLY THEREAFTER.

CONCLUSION

I HAVE BRIEFLY HIGHLIGHTED MAJOR PARTS OF OUR FY 1987 BUDGET REQUEST WHICH REPRESENTS ANOTHER "HOLD-THE-LINE" TYPE OF BUDGET. HOWEVER, WE WILL CONTINUE TO STRIVE FOR PRODUCTIVITY IMPROVEMENTS, INCREASED EFFICIENCIES, AND MORE EFFECTIVE USE OF OUR RESOURCES, INCLUDING THOSE NEW AND IMPROVED RESOURCES ACQUIRED AS A RESULT OF RECENT MAJOR CAPITAL INVESTMENTS...THE NEW 110 AND 270 FOOT CUTTERS, THE 210 FOOT AND 378 FOOT CUTTERS REHABILITATION AND MODERNIZATION PROGRAMS, OUR NEW SHORT-RANGE RECOVERY HELICOPTERS AND SENSORS LIKE FLAR AND AIREYE. THESE INVESTMENTS WILL MAKE THE COAST GUARD EVEN MORE PRODUCTIVE IN THE YEARS TO COME...AND ABLE TO SERVE THE AMERICAN PEOPLE BETTER.

AS THIS BUDGET SHOWS, THE PRESIDENT STRONGLY SUPPORTS THE COAST GUARD AND THE BENEFITS AND SERVICES IT PROVIDES TO THE PUBLIC. EVEN IN THESE DIFFICULT FISCAL TIMES, THE COAST GUARD WILL CONTINUE TO SERVE

THIS NATION PROUDLY AND WELL. AT TIMES, IT MAY BE IN FEWER LOCATIONS...IT MAY BE WITH FEWER PEOPLE AND RESOURCES...BUT BE THERE IT WILL...AND WITH ITS ESSENTIAL CHARACTER UNCHANGED, STILL DOING ITS PRIMARY MISSIONS OF MARINE SAFETY, DEFENSE READINESS, AND MARITIME LAW ENFORCEMENT THE BEST IT CAN. AND THAT BEST IS WITHOUT EQUAL - ANYWHERE.

THIS CONCLUDES MY STATEMENT. I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS THE COMMITTEE MIGHT HAVE.

GRAMM-RUDMAN-HOLLINGS BUDGET IMPACT

Senator ANDREWS. Admiral, in your February hearing, the House subcommittee contrasted the lack of budget details associated with Gramm-Rudman-Hollings cuts and the dire and explicit impacts last September when the budget resolution forced the Senate to cut $200 million from this subcommittee's level.

What will be the specific impact of the $70 million sequestered March 1?

Admiral GRACEY. I can give you the breakdown on 1986 by itself, Mr. Chairman, or I can talk to you in terms of the $142 million we were short after Gramm-Rudman-Hollings. We are really dealing with a $142 million problem: $30 million that we were short that was not part of the $230 original proposed cut, and the $36 million in——

Senator ANDREWS. Well, last September we had specific cutter hours and helicopter hours and all the rest that the budget was going to result in.

What have you got for that in terms of the $70 million sequestration?

Admiral GRACEY. Well, Mr. Chairman, that is what I am trying to explain. Forgive me for being clumsy with it. We are in a different situation than we were last year. We are dealing with a total problem and we have gone a long way into this year.

Senator ANDREWS. Didn't you deal with the total problem last year?

Admiral GRACEY. Sir, when that breakdown was presented to you last year, it was done within 3 days of having been told we were going to have to absorb the large cut, and there was no indication of coming back at the end of the year. It was a case of having to get rid of $230 million by the end of the year.

We started this year with a slowdown while we waited to see what would happen. We could see these cuts coming. As I said in my statement, we have continued that slowdown, so we are really faced with what amounts to a $46 million problem, and that is what the supplemental is meant to deal with.

The total shortfall we are trying to absorb is $142 million. We can absorb about $96 million of it through the slowdowns, through eating into our spare parts inventories; we have cut down training, we have cut down transferring people. We have really come down almost to a grinding halt, except in certain critical kinds of missions.

We cut fisheries patrols in half. We have stopped aids to navigation and routine maintenance. I can give you a list ad nauseum. That is where the real impact has come. And we are mortgaging the future. We are betting to come, if you will; we are bridging a gap. We are trying to get across into fiscal year 1987 when, if you pass the President's budget, we will be able to go back to normal operating levels.

I can tell you ballpark figures as to what the impact would be if the supplemental were not passed. The effect is that, like a business that is eating up its assets, we can get within $46 million of getting through to the end of the year. We are building a bridge, and the bridge is missing one span.

We worked out an estimate of what the impact would be if we do not get the supplemental. It was geared to learning that by April 1. I can tell you what those are if you would like. In essence, it involves laying up about 18 percent of our ships and about 11 percent of our aircraft and a number of other shore stations and several other actions, in addition to the slow-down/squeeze-down.

I am sure you feel that I am trying to wiggle here, and I am really not. Our problem is, Mr. Chairman, what we do will depend on when we find out we have to do it, and how late in the year we find out.

For example, we are faced with the problem of that $46 million hole. We just do not see how we can bridge it. We are at a time of year when we have to go up with some increased spending. We are going into the busy summer season, we are going into the transfer season; there have been some new entitlements passed.

If we were to furlough every single one of our civilians for the entire last quarter, that would only give us less than half of the amount of money we need to make the gap. If we were to stop recruiting entirely—entirely—for the whole last quarter—and this is the busy recruiting season—we would only save about $2 million.

So the only hope we can see is to go with the supplemental. If it looks, getting on into the summer, that the President's budget for us is not going to fly or there may be across-the-board cuts or the supplemental is not going to fly, then we are going to have to start shutting things down.

DRUG INTERDICTION REDUCTIONS

Senator Andrews. Admiral, the problem with the President's budget is that it is a nice little document, but it is affected by Gramm-Rudman-Hollings, which the President also supported. And in testimony before the House Transportation Appropriations Subcommittee in February, you were unable to specify reductions in your drug interdiction efforts that would be necessary in 1986 as a result of the Gramm-Rudman sequestration.

Can you describe for us the specific action you have taken to reduce drug interdiction operating expenses in 1986?

Admiral GRACEY. Sir, I can tell you this. It is a mixed bag. We have just completed the largest extended, concentrated drug operation in history.

Senator ANDREWS. That is right. But how much are you reducing those drug interdiction operating expenses because of Gramm-Rudman?

Admiral GRACEY. Sir, Gramm-Rudman calls for making priority decisions, and we made a priority decision.

Senator ANDREWS. All you have to do, Admiral, is say we have not reduced drug interdiction; we are reducing in other areas.

Admiral GRACEY. Well, it is not that simple. I will tell you that the primary——

Senator ANDREWS. Well, then how much are you reducing drug interdiction?

Admiral GRACEY. Sir, our instructions were to spend not less than $328 million. That was sequestered down to $314 million.

Senator ANDREWS. That is correct.

Admiral GRACEY. And we are spending no less than that.

Senator ANDREWS. OK. That is what we want to know.

Now, the administration's March 18 supplemental appropriation request includes $35.5 million, as you know, for Coast Guard operating expenses. The Secretary's transmittal letter states that early savings achieved this year cannot be sustained without a severe effect on the Coast Guard's ability to interdict drugs.

However, because of Gramm-Rudman-Hollings provisions, this subcommittee is going to be hard-pressed to fund any supplementals. Since you have not cut back drug interdiction, can you outline the specific items which are urgently needed in the supplemental?

Admiral GRACEY. Mr. Chairman, what the Secretary was saying to you was that if we do not get the supplemental, we will in fact have to cut drug operations. And that is what I said to you earlier; 18 percent of our ships and 11 percent of our aircraft and a number of other stations which directly impact on it will have to be shut down.

Senator ANDREWS. Is all of the $35.5 million going to be applied to the drug interdiction program?

Admiral GRACEY. No, sir; but our ships, if you lay up a ship that is——

Senator ANDREWS. We have not got a breakdown of the $35.5 million. You have to realize, we have got to take this to the floor and we have got to find out some way of justifying the $35.5 million which has to come out of somebody else's hide. And how much of it is drug interdiction?

Admiral GRACEY. Well, sir, the Secretary did not ask for it to come out of somebody else's hide. She asked for it to come out of her own hide.

Senator ANDREWS. Of your hide.

Admiral GRACEY. Of the Department of Transportation's hide.

Senator ANDREWS. Well, I know, but we have to take it out of somebody else's hide. We are not taking it out of the Coast Guard's hide. I mean this is wonderful; you come up and it does not come out of anybody else's hide. The heck it doesn't. It comes out of FAA; we are going to tell the airlines, cut back 10 percent of scheduled flights. It comes out of highway funding; we are going to say you are not going to build more highways.

There is not any magic. What I am trying to find out is the drug portion. Why does your entire 237-page budget justification, Admiral, contain one sentence that pertains specifically to the Coast Guard's drug law enforcement program?

This sentence, as I read it, is as follows: "In 1987 the drug law enforcement program will continue to receive major emphasis." And what we would like to have explained is why this program, which is one of the highest priorities of Congress, the administration, and this Nation, is not more fully described or justified in your budget submission.

Admiral GRACEY. Sir, I think you do not have correct information. There are many, many more sentences than that in the budget concerning drug law enforcement.

DRUG ENFORCEMENT PROGRAM

Senator ANDREWS. Well, total law enforcement is characterized, but the specific—my staff tells me that the drug law enforcement, the only mention of it is this one sentence, so if you could provide for the record a little bit more information than we got, it would help.

[The information follows:]

Drug enforcement is a high-priority mission for the Coast Guard. Coast Guard high- and medium-endurance cutters, patrol boats, surface effect ships, and aircraft patrol the high seas, coastal areas, and particular target regions of drug trafficking to enforce Federal drug laws. The Coast Guard's drug interdiction strategy has in past years been mainly directed toward intercepting motherships as they transit the major Caribbean passes. This is complemented by cutter patrols elsewhere, as available, in areas such as the Bahamas, eastern passes of the Caribbean, and the Gulf, Atlantic, and Pacific coastal areas. Recently, this strategy has been supplemented with offensive, multiagency, international operations off the coast of the Latin American and Caribbean source transshipment countries.

In Coast Guard's budget justifications, drug enforcement is included in the enforcement of laws and treaties [ELT] budget activity along with fisheries enforcement and other general law enforcement programs. Program summaries are deliberately short and only highlight major areas of emphasis. Funding and cost data, as well as workload data are included in the various schedules and backup material within the ELT totals. The budget is presented on an incremental basis. Individual lines provide more detailed explanation and relate new resources to programs they support. In addition, pages 36 through 39 show program distribution of how resources will be used for ELT.

The responses given to other questions for the record should help to amplify these program data. In addition, a breakdown of drug enforcement as it relates to total ELT follows:

Fiscal year	ELT as percent of OE total	Drug as percent of ELT	Drug as percent of OE
1984	32	60	19
1985 (estimate)	32	61	20
1986 (estimate)	34	61	21
1987 (estimate)	34	62	21

Senator ANDREWS. Now, the President's budget states that 15 percent of the Coast Guard funds will be used for drug interdiction. Yet, you testified before the House subcommittee that there is no particular strategy underpinning that level.

In fact, you called the 15-percent outcome an accident. In times of scarce resources, how do you expect Congress to support $349 million for the drug program when rationale or goals have not been clearly set by the Coast Guard?

Admiral GRACEY. I think I have been misquoted, Senator. I did not say it was an accident. I did say that about 62 percent of our law enforcement figure went for drug operation.

Senator ANDREWS. Your language, Admiral, is that: "And this time they have looked and said, yes, by gosh, the Coast Guard is high priority and want those things to stay, so they have stayed. It is an 'accident' that it came out 15 percent." Quote: Accident.

Those are your words from the transcript of the House hearing.

Admiral GRACEY. Mea culpa, sir. The message I was trying to communicate—and you need to take the rest of it in context with what I said before that—was that we do not set out the begininng of the year with a finite percentage in mind. The House was trying to find out what our interception, interdiction goal is in terms of a percentage, and what I was trying to communicate was that our goal is to do the absolute most we can with the resources we have to stop the flow of drugs into this country, and that there are so many factors that come into play it is not possible for us to set a goal at the beginning of the season and say we want 10 or 20 percent.

What we do is give it our best effort and stop all we possibly can. After the season is over and 2 years later when we have had an estimate of what the crop was that year and what was probably shipped, then we can tell you what the percent was. That was what I meant to communicate when I said "accident." It was a poor choice of words.

DRUG SEIZURE LEVEL/PERCENT

Senator ANDREWS. Given the level, Admiral, of resources being applied to drug interdiction, what level of drug seizures are you experiencing this year compared to previous years?

Admiral GRACEY. The level, Senator, is actually running below so far this year. We attribute that to the fact that our operation through November and for the succeeding several months had a great deterrent effect. We know that in prior years that has been so.

Senator ANDREWS. Admiral, can you provide for the record a breakdown of drug seizures by type: marijuana, cocaine, et cetera?

Admiral GRACEY. Yes, I can.

Senator ANDREWS. For fiscal years 1984, 1985, and 1986?

Admiral GRACEY. I'll give you a table that looks just like this, Senator, the one I have right here.

Senator ANDREWS. Good. That will be a help.

[The information follows:]

SEIZURES THROUGH 3/31/86

GENERAL LAW ENFORCEMENT CONTRABAND SEIZURES BY FISCAL YEAR

		73 - 77	78	79	80	81	82	83	84	85	86 *	TOTAL
SEIZURES BY COAST GUARD	CASES:	64	139	106	93	207	238	210	364	329	109	1,859
	VSLS:	56	133	99	78	184	185	145	223	184	58	1,345
SEIZURES BY OTHER AGENCIES W/ CG ASSISTANCE	C:	41	29	27	19	25	30	26	45	51	20	313
	V:	37	28	25	19	21	24	21	33	41	9	258
MARIJUANA(LBS) BY COAST GUARD	C:	956,543	3,004,660	2,865,103	1,169,730	3,720,977	3,595,351	2,299,825	2,857,511	1,955,071	881,352	23,306,123
	V:	837,657	2,962,490	2,838,733	1,046,525	3,637,372	3,534,089	2,239,278	2,795,985	1,861,455	820,815	22,574,399
MARIJUANA(LBS) OTHER AGENCIES W/ CG ASSISTANCE	C:	282,913	267,089	340,429	315,965	284,046	180,925	101,849	134,635	326,202	180,547	2,414,600
	V:	277,838	253,089	340,379	315,965	231,785	152,025	91,805	127,740	319,687	109,741	2,220,054
COCAINE(LBS) BY COAST GUARD		64.00	0.01	0.01	0.00	0.00	40.10	55.46	1,932.42	5,890.10	3,700.62	11,682.72
COCAINE(LBS) BY OTHER AGENCIES W/ CG ASSISTANCE		4.40	0.01	0.00	10.01	0.00	224.10	1,700.02	75.00	24.00	810.21	2,847.75
HASHISH(LBS) BY COAST GUARD		3,700	0	41,580	2,534	0	34,580	1	29,962	0	2,099	114,456
HASHISH(LBS) BY OTHER AGENCIES W/ CG ASSISTANCE		6,139	0	1,100	2	167	18	0	0	0	1	7,427
HASHISH OIL(GAL) CG OR ASSIST		0	0	0	5	0	7	0	28	0	26	66
THAI STICKS(LBS) BY COAST GUARD		10185	17,130	0	12,623	0	0	0	1	0	0	39,939
THAI STICKS(LBS) BY OTHER AGENCIES W/ CG ASSISTANCE		0	0	5,751	0	0	0	0	16,000	0	0	21,751
DANGEROUS DRUGS (DOSES) BY CG		200	0	900,060	4,700,557	5,961,036	61,628	100	0	1	0	11,225,582
ARRESTS	TOTAL:	443	826	622	408	1,010	1,128	780	1,149	831	327	7,524
	CG:	306	736	510	319	939	1,048	709	1,056	724	277	6,624
VALUE OF CONTRABAND $MILLIONS	TOTAL:	457.54	1,216.14	1,781.40	1,060.48	2,662.91	1,616.74	1,332.12	1,722.95	2,454.39	1,641.70	15,946.37
	CG:	349.15	1,123.65	1,597.19	845.46	2,477.53	1,486.12	820.47	1,597.23	2,333.50	1,348.45	13,978.75

*Through March 31, 1986

Senator ANDREWS. Now, what percentage of illicit drugs that were brought into this country do you estimate your seizures constitute?

Admiral GRACEY. Well, Senator, our best guess on marijuana, for example, the latest figures we have are somewhere around 16 percent.

Senator ANDREWS. In other words, you are seizing about 16 percent. Now, how does this compare with previous years' performances?

Admiral GRACEY. It has been averaging at about that level, but the important thing to know, Senator, is that seizures are not a good determining factor. Ideally, if you assume smuggling was an ongoing thing—and it is right now—ideally just before the program stopped you would have a seizure rate of zero. Just before you won the war, the seizure rate would be zero.

DRUG ENFORCEMENT ACTIVITY LEVEL

Senator ANDREWS. Well, if you could provide that information and provide us also on what basis that information is derived. Also, why does the requested budget language delete the provision establishing a drug enforcement activity level?

[The information follows:]

INTERDICTION RATE CALCULATION

The Coast Guard uses "interdiction rate," that proportion of illegal drugs seized of that estimated shipped by sea, as a measure of effectiveness. Marijuana is the only drug for which it is calculated because it is primarily shipped by sea. The limited information on other drugs regarding quantities shipped by sea prohibits similar calculations. The interdiction rate is calculated as follows:

The Narcotics Intelligence Estimate developed by the National Narcotics Intelligence Consumers Committee [NNICC] provides the estimated total amount of marijuana imported to the U.S. market from foreign sources (in metric tons). The Coast Guard uses this to calculate the estimated amount imported by sea (estimated 60 percent of amount imported). The amount shipped by sea is the amount successfully imported by sea plus the amount seized at sea. The seizure percentages (or the interdiction rate) are then calculated by dividing the Coast Guard marijuana seizure poundage by the amount shipped by sea. For calendar years 1982 through 1985, the Coast Guard's interdiction rate for maritime marijuana shipments are in the following ranges: calendar year 1982, 18.4 to 22.5 percent, or about 20 percent; calendar year 1983, 12.2 to 15.6 percent, or about 14 percent; calendar year 1984, 12.4 to 20.1 percent, or about 16 percent; and calendar year 1985 (estimate), 10.8 to 17.3 percent, or about 14 percent. (Note: Because the 1985 NNICC has not been published, calendar year 1985 is estimated using the same amount of marijuana that was imported in 1984. As 1985 marijuana arriving in the United States is anticipated to be much lower, the Coast Guard's interdiction rate for 1985 is expected to be substantially higher.)

As can be seen above, the Coast Guard's interdiction rate decreased from calendar year 1982 to calendar year 1983. The suspected reasons for this drop include: use of hidden compartments making narcotics increasingly harder to find, smaller and more numerous shipments, and counterintelligence/surveillance tactics employed by smugglers.

Admiral GRACEY. I am not sure that I recall exactly the words, sir, but the answers to all these questions tie into something, and if you could bear with me a moment, I will try to explain, because it ties into——

Senator ANDREWS. Last year's language which was deleted in this year's request says very simply that of the funds available under this heading, so much for compensation and benefits. Provided further, that of the funds available under this heading, not less than $328 million shall be available for drug enforcement activities.

Now, in this budget—that is the language I am referring to—in this budget you have deleted the specific recommendation for a certain number of your dollars to be spent for this very key enforcement activity.

Why?

Admiral GRACEY. Senator, I will give you an answer to that, but I would like to go back and explain the whole situation because we are ricocheting around here and I think I am creating some false impressions or wrong impressions. I would like to try to put the whole thing in perspective if you can bear with me a minute, Senator.

Senator ANDREWS. Well, why don't you do it—actually, Admiral, let's give you time to do that for the record because there is a vote about to come.

Admiral GRACEY. Well, I can do it about 3 minutes if you will let me go, sir.

The answer to your question: It was taken out because that is a floor. We do not need a floor. We are above a floor. One of the President's top two or three priorities is to stop drugs coming into the country.

Senator ANDREWS. That is true, Admiral, but when we take this bill to the floor and we are asked by the President to give more to the Coast Guard and take it out of other extremely important programs to various States, we can do a much better job if there is a base level floor funding for your drug interdiction activities.

People are very much more interested in this Nation, Admiral, in drug interdiction by the Coast Guard than they are in how your boats look or all of the rest of the things.

Now, you know, it is just one of those things that helps us help you, and it tells the story, because we are saying you are not spending it on this or that; you are spending it on drug interdiction. And here is the language.

Admiral GRACEY. Senator, that is fine with me. If that will be helpful, I really do not have any problems with it.

Senator ANDREWS. Admiral, that is why we put it in. As you point out, yes it is a floor. It is intended to be a floor. And you are spending above that level, fine. But if you are spending above that level, let's assure the Members of the Senate when this subcommittee takes this bill to the floor that that is the base level for this very important function.

Admiral GRACEY. When you put specific language in the bill, Senator, the interpretation last year was that because it is language specifically called out in the bill, that Gramm-Rudman-Hollings has to pertain to that; whereas, if it is not specifically called out, Gramm-Rudman-Hollings——

Senator ANDREWS. Gramm-Rudman-Hollings cuts everything. When we put a minimum, that is not going to affect that.

Admiral GRACEY. As a floor it does not matter because we are above it anyway.

Senator, very quickly, the reason I am having trouble telling you what the cuts are is that all our units are multimission and if I tie up a ship in Boston, it is a ship that is going to deploy to Miami. I can tell you how much time that ship spent on law enforcement last year, but I cannot tell you how much it is going to spend this year. That is critical, because the costs of our multimission units are allocated on the basis of time spent on a program.

It depends on how many Challengers crash, how many other kinds of missions come up that are unexpected. All of those things eat into it. And we are trying to give you the best estimates we can. Over the years, the best estimate is that about two-thirds of our law enforcement effort has gone to drug enforcement. We can tell you what that is in dollars. It is $300-and-some odd million. It is higher than the floor.

Our approach is to maximize in connection with the overall Federal strategy, to maximize our effort in interdiction and to pour as much as we can into stopping as many drugs as we can. We think we are having excellent success but it is not measured in seizure rate; it is measured in a lot of other things. It is measured in deterrence. It is measured in crops sitting on the dock that the incountry people seize. It is measured in counterintelligence that people are going on and surveillance and going in other routes and hiding cargoes.

I cannot give you a simple answer to your question. I can give you some numbers for the record.

[The information follows:]

There are many ways to show success, but few are measurable. Deterrence is an example. Changes in tactics by traffickers, such as the use of counterintelligence, countersurveillance, and sophisticated hidden compartments and changes in trafficking modes and routes are others. We could weigh the cost of the interdiction effort against the economic and sociological costs to the United States without it. For a cost of $330 million, the Coast Guard keeps about $2 billion of illegal drugs off the streets—a ratio of 1:6. A variation on this method is to consider the impact if all those drugs we stopped had found their way into the county . . . or the loss to our economy of that $2 billion flowing out of the country.

Our measure is "interdiction rate," (that portion of illegal drugs seized of that estimated shipped by sea). Marijuana is the only drug for which it can be calculated because marijuana is primarily shipped by sea. The limited information on other drugs regarding quantities shipped by sea prohibits similar calculations. For calendar years 1982 through 1985, the Coast Guard's interdiction rate for maritime marijuana shipments are in the following ranges: Calendar year 1982, 18.4 to 22.5 percent, or about 20 percent; calendar year 1983, 12.2 to 15.6 percent, or about 14 percent; calendar year 1984, 12.4 to 20.1 percent, or about 16 percent; and calendar year 1985 (estimate), 10.8 to 17.3 percent, or about 14 percent. (Note: Calendar year 1985 is estimated using the same amount of marijuana that was imported in 1984.)

WRITTEN WARRANTIES

Senator ANDREWS. Good.

Admiral, why does the budget propose elimination of the current law provisions requiring written warranties from prime contractors?

Admiral GRACEY. Senator, because we were directed last year and 1984 to have some regulations on that subject, and those are going in effect and they would in effect do the same——

Senator ANDREWS. Who directed you to avoid written warranties?

Admiral GRACEY. We are not avoiding them, Senator. We are using them. And the regulations are being developed within the——

Senator ANDREWS. Well, then why isn't the regulation published?

Admiral GRACEY. They are still working out some of the last details on it, but——

Senator ANDREWS. When will it be published?

Admiral GRACEY. I cannot tell you, sir. I will try to provide it for the record.

[The information follows:]

The warranty regulation has not yet been issued by the Office of the Secretary of Transportation [OST]. OST expects to publish the proposed warranty regulation for public comment in the Federal Register by June 1986.

Senator ANDREWS. OK. Are warranties currently in place on the following fiscal year 1985–86 procurements identified by the Coast Guard last year: Fleet rehabilitation and modernization?

Admiral GRACEY. Yes, sir.

Senator ANDREWS. Mid-life maintenance availability?

Admiral GRACEY. That is being done by the Navy, Senator.

Senator ANDREWS. C–130 aircraft?

Admiral GRACEY. The Air Force is buying those.

Senator ANDREWS. And they would enforce the warranty provision?

Admiral GRACEY. Yes, sir; they would have their own, I am sure.

Senator ANDREWS. What other fiscal year 1986 major acquisitions will include warranty provisions?

Admiral GRACEY. All the ones that fit the categories where it is in place, sir. We are using the warranty provision. Unless the warranty is going to impose a condition which is going to be more onerous than not having it, and that is the case in some matters, sir.

Senator ANDREWS. Will the Coast Guard require warranties on coastal defense funded equipment?

Admiral GRACEY. Those are being bought by the Navy. If we buy them, yes, sir.

We are using the warranty idea wherever it is appropriate, Senator.

OMEGA STATION STATUS

Senator ANDREWS. Admiral, what is the current operating status of the Coast Guard run Omega station?

Admiral GRACEY. We run two of them, Senator. There is one in Hawaii and one in North Dakota. And they are on the air and running.

Senator ANDREWS. That is right, but I understand you have eight stations worldwide. When will an A–76 review be conducted on those eight stations?

Admiral GRACEY. They will not be done on the eight, Senator, they will only be on the two that we operate with U.S. Coast Guard personnel, and that will be done next year.

Senator ANDREWS. Well, is it appropriate to single out the two U.S. stations in a worldwide network of eight?

Admiral GRACEY. Senator, we cannot very well ask Argentina to go into a contracting—many of them are done on contract now in those countries. They are all done with civilian personnel.

Senator ANDREWS. So just at U.S. stations are you thinking about this contractor?

Admiral GRACEY. I am sorry?

Senator ANDREWS. Just at the two U.S. stations you are thinking about this contract?

Admiral GRACEY. That is the only place it would be appropriate, Senator.

Senator ANDREWS. Now, what is the current Coast Guard personnel contingent at La Moure, ND?

Admiral GRACEY. It is whatever the staffing is for that Omega station, Senator. Let me see if I have it.

We have 16 people, Senator.

Senator ANDREWS. What is the annual cost to operate and maintain it?

Admiral GRACEY. I am sorry, sir?

Senator ANDREWS. What is the annual cost to operate and maintain it?

Admiral GRACEY. About $279,000 in personnel cost. I will have to provide the full cost for the record, Senator.

[The information follows:]

Total cost to operate and maintain the station in fiscal year 1985 was $616,250. A specific breakdown is: Personnel, $278,788; utilities, $152,765; supplies/maintenance, $143,508; housing, $32,574; and travel, $8,615.

A-76 REVIEW

Senator ANDREWS. Under A-76, if the Coast Guard is efficiently operating the facility with Coast Guard personnel, is it not unlikely that it can be done more cheaply by a contractor?

Admiral GRACEY. That is why we conduct the review, Senator. That is the principal of the whole program. If it cannot be done more cheaply and more effectively by contract personnel, we will not contract it out.

Senator ANDREWS. Now, why would the Coast Guard's spokesperson there feel that continued Coast Guard presence depended on political influence rather than a thorough A-76 review?

Admiral GRACEY. I have no idea, Senator. All I can do is tell you that he is out in left field.

Senator ANDREWS. Let me read what it says. "The Omega station yearly payroll now is $250,000, most of it spent in La Moure," says Patrick. "When it's turned over to the private sector, La Moure will certainly lose some income." He pauses and says—this is your spokesman, Admiral—"But North Dakota just doesn't have enough clout to keep that military there."

Admiral GRACEY. Senator, if I could make sure that every one of the 40,000 people in the Coast Guard never spoke when he should not or said something when he should not, I would be a genius. I cannot. That was an improper statement.

Senator ANDREWS. Well, it goes on to say, right after he said we do not have enough clout to keep the military there: "Commander Patrick is an 18-year veteran of the Coast Guard and knows whereof he speaks."

Admiral GRACEY. That is what the newspaper reporter said.

Senator ANDREWS. That is right.

Admiral GRACEY. Well, I cannot account for them either, Senator. [Laughter.]

I can tell you this, Senator; that we are trying to run the A–76 program as it was intended to be run, as it was directed. In fact, our approach to it has been cited as a model for the Government, and we are doing it fair and square and by the rules.

The reporter was talking to people at the station who believe in what they are doing, believe they are doing well, and who are offended by the thought that somebody might be able to do it better and cheaper.

That is what the whole program is about. That exists wherever we do A–76, and I do not blame the people. I am glad they are that proud of their work.

Senator ANDREWS. Well, that is fine, but if your commanding officer out there says that somehow or another North Dakota is going to be in jeopardy because it does not have enough political clout, clout that it used to have to get the station there, and now suddenly somehow there is no interest in the Coast Guard for North Dakota, that is a strange juxtaposition and it caught my attention, I just wanted you to know. [Laughter.]

Admiral GRACEY. Senator, just as Senators speak with a lot more voice than their staff, for example, may I suggest that the Commandant of the Coast Guard does not share the opinion of the so-called spokesman that was interviewed in the newspaper. And we do not know for sure what the man said. We know what the paper said he said.

BOAT SAFETY FUND INCREASE

Senator ANDREWS. Admiral, the proposed budget language provides $30 million rather than the currently authorized $15 million from the boat safety account for operating expenses.

Why is the Boat Safety Trust Fund share being doubled?

Admiral GRACEY. Senator, 1986 is the first year that $30 million went to the States. The proposal to shift it back, to shift part of it to the Coast Guard, is that we spend about $200 million a year in services which relate to boaters, and we think that under the current circumstances that $15 million can be better applied to the benefit of the boaters by putting it in Coast Guard operating expenses and partially defray that $200 million.

Senator ANDREWS. What studies have been conducted on the corresponding increase of services for those boaters whose fees support the trust fund?

Admiral GRACEY. I am not sure I know what you have in mind about studies for increased services, Senator. We are talking about search and rescue and aids to navigation and inspecting boats in plants and running educational programs.

Senator ANDREWS. What we are looking for is can we be sure that those user fees are going to be wisely used for their benefit? You must have some studies when you anticipate doubling it.

Admiral GRACEY. By user fee—do you mean user fee or do you mean gasoline tax?

Senator ANDREWS. Excise tax.

Admiral GRACEY. Well, if you will forgive me, sir, I want to ask you a counterquestion. Do you believe the Coast Guard does a good job of what it does? We are talking about doing our normal work with that money.

NORTH DAKOTA SEARCH AND RESCUE SERVICES

Senator ANDREWS. We have got 38,000 boaters in North Dakota that are paying into the fund. How many search and rescue operations do you run in North Dakota?

Admiral GRACEY. Not very much, Senator, but they are benefiting from the boating safety courses. They are benefiting from our training of State officers who will oversee them and who do provide some rescue assistance. There are also Coast Guard Auxiliarists operating up there—we have two flotillas of Auxiliarists, one operating in Bismarck and one in Devils Lake. That is a drop in the bucket, admittedly, but I suspect we are talking primarily State water.

What we are talking about with putting the $15 million back is to help offset our normal current services.

LAKE SAKAKAWEA

Senator ANDREWS. Admiral, four lighted aids to navigation—I look around to find Coast Guard presence out there, other than our Omega station—four lighted aids to navigation are maintained on Lake Sakakawea in North Dakota.

Are there any current or future plans to cut back on this cost-effective seasonal program?

Admiral GRACEY. Good Lord, I hope not, Senator. [Laughter.]

C-130 FLEET

Senator ANDREWS. Well, I just wondered whether Officer Patrick's virus was spreading. I just want to make sure that it was not. And we appreciate that assurance.

As you know, Admiral, this committee has been extraordinarily supportive of the C–130 fleet buildup. For example, the 26th aircraft was added by this subcommittee last summer as part of the drug initiative in the supplemental.

It now appears that the post-sequestered coastal defense augmentation fund will be used to support three more aircraft. Can we have your assurances that the 29-aircraft fleet will adequately serve the Coast Guard mission?

Admiral GRACEY. Twenty-nine C–130's, Senator, will give us all the capability we can use effectively for the foreseeable future.

Senator ANDREWS. Thank you very much, Admiral.

I will now yield to Senator Chiles.

Admiral GRACEY. May I add just a sentence on that last statement, Senator? That is based on anticipation of the forward-looking radar going into those aircraft, and that is a program that is going forward. It is another one of our AC&I programs.

Where we are squeezed on the C–130's is on operating expenses money.

ADMINISTRATION'S POSITION ON H.R. 4151

Senator ANDREWS. Thank you very much.

Admiral, the House has passed H.R. 4151, an act to provide enhanced diplomatic security and combat international terrorism. Section 906 of that act expands the Secretary's authority for port, harbor, and coastal facilities, authorizes appropriation of $125 million for such effort.

What is the administration's position on this section of H.R. 4151?

Admiral GRACEY. On the part that pertains to ports and so forth, Senator?

Senator ANDREWS. That is right.

Admiral GRACEY. The administration has been working with the Congress, as I understand it and has worked out an agreement on the wording. The administration is very strongly in support of the idea of curbing terrorism in our ports. In fact, I led our U.S. Delegation to the International Maritime Organization last year. With the strong support of the administration, we introduced a resolution on the subject and we have some programs going.

Senator ANDREWS. If an additional $125 million is authorized for this function, what specific offsets will be taken by the Coast Guard?

Admiral GRACEY. I was not aware that we were talking $125 million.

Senator ANDREWS. Could you provide that for the record?

[The information follows:]

We have been asked by the Secretary to prepare comments on H.R. 4151 at an annual level of $12.5 million so that an administrative position can be developed, and hopefully incorporated into the Senate version of any antiterrorism legislation. You should be receiving this position from OMB shortly. Coast Guard cost of any new functions associated with H.R. 4151 will require additional funding. The Coast Guard does not have the flexibility to offset or absorb the cost associated with any new responsibilities or workload related to H.R. 4151.

Senator ANDREWS. I have some other questions I will provide for the record.

Senator Chiles.

Senator CHILES [presiding]. I would like to welcome Admiral Gracey and the others here this morning. Admiral, I understand this is your last appearance before the subcommittee. We are going to miss you. We know, of course, you have had a keen interest in trying to keep the Coast Guard viable in the roles which it has played, much of which is of great interest to me in the drug situation, and we will miss your leadership there.

Admiral GRACEY. Thank you, sir.

IMPACT OF $35 MILLION SUPPLEMENTAL REQUEST

Senator CHILES. Last year when the Senate cut the Coast Guard operations account by $200 million, we were told that this would trigger a series of cutbacks and your budget justification notes that you have a $142 million shortfall in the 1986 funding because of Gramm-Rudman and the requirements to absorb the military pay raise. But your supplemental request is for only $35 million.

If the committee approves the full supplemental request, what impact will there be on Coast Guard operating levels? Will you be able to maintain your full law enforcement activities nationwide and in the Seventh District, which I have a great interest in?

As you know, any funding measure that we would recommend in the supplemental must be offset by reductions or be subject to a point of order on the Senate floor.

I know you proposed offsets for the $35 million supplemental, but they only create additional controversy and compound an already difficult situation.

What would be the impact on the Coast Guard if you did not receive the $35 million supplemental as requested? So I guess I am asking you two questions: First, How will you be if you get it; will you be able to maintain everything if you get it; and second, what will happen if you do not?

Admiral GRACEY. The effect—and it is really a $46 million gap that we are trying to bridge here, Senator, to get across the dip between 1985 and the President's 1987 request. Through our slow-down/squeeze-down, by the end of the year, we think we can defer spending and postpone things of about $96 million. So that leaves $46 million to go.

About $10 million of that is to be transferred from our AC&I account under the legislation that authorized such actions. That would leave the $35 million. That is where that figure came from.

That $35 million will let us get across into 1987, across the dip situation that we are into. If we do not have it, then we are in a position of just having to take some drastic actions of closing things down, hopefully, early enough to get enough savings from it.

As I explained before you arrived, even with some very drastic action, for instance—and this is really inconceivable—but even if we furloughed every single one of our civilian employees for an entire quarter, we would only get halfway there.

We could stop recruiting entirely for a whole quarter and we would only save another couple of million dollars. So we simply cannot do it; we just cannot get there. We have already for 6 months now been eating into the spare parts boxes; we have slowed down training; we have deferred all kinds of maintenance, and we are going into the busy season, going into the active summer season. I know it is active in Florida all year long, but in the rest of the world, most of the rest of the world, it comes and goes. And we are into that busy season.

We have the Statue of Liberty event in New York to cope with. We have a number of things coming down the pike that are going to cost money.

SUPPLEMENTAL IMPACT ON DRUG AND LAW ENFORCEMENT

Senator CHILES. Can you continue your full drug and law enforcement activities with the supplemental?

Admiral GRACEY. At the rate we are going now, Senator. Senator Andrews was concerned because I hedged around about saying yes, we can continue the full activity. I cannot tell you that because part of the slow-down/squeeze-down is to cut out all routine patrols except where there is reason to believe there is illicit activity offshore.

Now, I picked those words carefully because we know darn well that there is illicit activity off the shores of——

Senator CHILES. We were told that you were not impacting or having the squeeze-down activities in the Seventh District where you had your highest law enforcement.

Admiral GRACEY. I am trying to explain that, Senator. There has not been a reduction there. But I cannot tell you that the slow-down/squeeze-down will not impact it. It will, around the country. In Florida, the wording was designed to keep our activity up—we know that is the hotbed of illegal drug activity. That is where most of it is coming, so we picked the words carefully so it would not be particularly impacted there.

But in other parts of the country, we have cut out routine patrols. So to the extent that we had drug patrols before, that is a reduction in the program. It is also cut to the extent a ship cannot sail, to the extent we have to lay up ships or ground airplanes. They are all going to be deployable into the drug effort somewhere or other. They are all multimission units, so there will be an impact.

The extent of it I cannot tell you until I know whether we are going to have to do those lay-ups, how much we are going to have to do, when we are going to have to do it.

Senator CHILES. Well, would you tell me then how much, or give me for the record, what will be the impact if you do not get the supplemental?

Admiral GRACEY. That is what I am telling you: the impact if we do not get it. If we do get it, the impact will only be what it has already been, and that is a deferral of maintenance, reduction of patrols, and so forth. We are really trying to be good sailors in this whole thing and not lay it on the people of this country. We are taking it on our own backs to try to get through this 1-year gap. We have done it all but about $46 million out of $1.8 billion, and I think that is pretty good.

All we are asking is really $35 million up here to help us, that one last link in the chain to get across.

AEROSTATS CONTRACTS

Senator CHILES. Let me ask you on the aerostats, do you expect to be able to meet the September 1, 1986, competition date on the head-to-head competition between RCA and TICOM and the aerostat?

Admiral GRACEY. We are hoping to, Senator. The contracts are going on. We are expecting deliveries this month and I think next month, although there was some slippage in one of them the last I heard, but we are hoping to have them all finished by the fall.

Senator CHILES. In spite of the problems that we had with the aerostats going down, the Coast Guard is still favorable to the technology in the direction we are going?

Admiral GRACEY. Indeed we are, Senator. We think it is a good technology. We learned some lessons from those that crashed. The new ones we are buying will be better constructed, and we learned some things about how they behave in weather.

Senator CHILES. When do you think you will be able to award the follow-on system contract subsequent to the competition and evaluation?

Admiral GRACEY. I think that hinges on the availability of funds, Senator, and I really do not know the answer. Can we provide that for the record or give it to you separately?

[The information follows:]

We expect to have the fly-off completed and the successful contractor chosen by the end of calendar year 1986. At that point, subject to cost and availability of funds, we will be ready to make award(s).

REVISED AC&I REQUEST

Senator CHILES. All right, sir. I want to ask you, on the funds needed for Coast Guard construction, the request for AC&I account this year was $77 million. This assumed the reprogramming of $190 million for coastal defense augmentation funding to the Coast Guard for a 1987 program of $267 million.

In view of the decision not to reprogram any of those for 1987, will the administration submit a required revised funding request for the Coast Guard?

Admiral GRACEY. There has been a lot of discussion going on between the executive branch and the legislative branch on how to handle that, Senator. And I am sure once all that is resolved, the proper actions will be taken, yes.

I understand the Director of the Office of Management and Budget has addressed a letter to the Hill on the subject. There are still some pieces to be done, but the answer is yes, as far as I know.

AC&I FUNDING NEEDS

Senator CHILES. Last year, as you know, the Senate Budget Resolution included $300 million for the Coast Guard AC&I account which I view to be a maintenance level. I understand you indicated to the House Appropriations Committee that a level of $450 to $500 million was the amount needed to maintain the Coast Guard capital base.

What are the true funding needs of the Coast Guard capital program in order to maintain your capabilities and ensure that your physical plant does not deteriorate?

Admiral GRACEY. Senator, about 5 years ago we did a study which we called Coast Guard, Incorporated. It was done as if we were a private sector organization, taking a look at a capital plant of the size and value and type that we have, as to what would be the reinvestment necessary to maintain its viability.

At that time we concluded that we would need somewhere around $600 million a year. A lot of things have changed since then, but the pure bald fact of the matter is that over the last 4 years, the Coast Guard has averaged somewhere around $500 million after the add-ons.

So the $300 million level for now and for a couple of years is fine, but, for the long haul, it will put us into a capital plant consumption basis.

Senator CHILES. In view of the fact that the Senate Budget Resolution has recommended $300 million for fiscal year 1987, I wonder if you would submit to the committee a capital plan for the spending of that $300 million, and in view of your statement before the House Appropriations Committee on the $450 to $500 million as a more appropriate level, I would like to request you submit to the committee your funding plan for 1987 if that funding level were $450 million.

[The information follows:]

PRESIDENT'S PROGRAM LEVEL ($267.3 MILLION)

The President's 1987 budget requests only $77 million in new budget authority that would be augmented by reprogrammed funding to achieve a 1987 program level of $267 million. The following list details the projects that reflect Coast Guard priorities at that program level. Any additional funding provided to the Coast Guard would be dedicated to the multiyear, high operational priority FRAM and MMA projects.

Fiscal year 1987 AC&I program

Project	*In thousands of dollars*
Vessels:	
210-foot medium endurance cutter [WMEC] mid-life maintenance availability	16,500
378-foot high endurance cutter [WHEC]—Fleet renovation and modernization [FRAM] (3)	123,100
270-foot medium endurance cutter [WMEC] EPA	4,400
Replace river buoy tender [WLR] in CGD2 (1)	6,000
Polar class icebreaker main propulsion console upgrade	7,200
Second District barge replacement—Phase II	6,500
Deployable port security units	2,000
Survey and design—Boats and cutters	900
Subtotal	166,600
Aircraft: Spares for HH-65A short range recovery [SRR] helicopter	9,600
Subtotal	9,600
Command, control, communications:	
Information resource management systems PH II	900
Secure voice communications installation PH II	1,600

Standard terminals for vessels	3,600
Survey and design—Command, control, communications	300
Subtotal	6,400
Shore facilities and aids to navigation:	
Public family quarters	9,300
Minor AC&I shore construction	6,400
Lorain, OH—Rebuild Station Lorain	1,900
Georgetown, SC—Establish permanent Station Georgetown	2,100
New York, NY—Support center electrical system	3,400
Ketchikan, AK—Base Ketchikan renovation PH I	3,000
South Portland, ME—Base South Portland moorings	5,000
Petaluma, CA—Training center-ET/TT building	12,000
Yorktown, VA—Reserve training center medical/dental building	2,400
Elizabeth City ground water purging	2,000
Kodiak, AK—Communication station restoration	3,500
Rebuild Station Grand Haven	2,200
Lighthouse Automation and Modernization Program [LAMP]	1,400
Waterways aids to navigation projects	2,000
Survey and design—Shore	4,100
Subtotal	60,700
Personnel and related costs	24,000
Subtotal	24,000
Grand total	267,300

Senator CHILES. Mr. Chairman, I have some other questions. I would like to submit those for the record. I have to make this vote.

Admiral GRACEY. Senator, excuse me, sir. Could I make just one point clear? I was not suggesting to the House of Representatives that I thought we ought to have $500 million or $400 million in 1987. And we do not have a plan that will cover that, but I will provide one.

Senator CHILES. Thank you.

NAVAL SURFACE VESSELS DRUG INTERDICTION PROGRAM

Senator D'AMATO [presiding]. Admiral, how many Coast Guard personnel are now serving on Naval surface vessels in drug interdiction areas as a result of the congressional approval of that legislation and the appropriation of $15 million to the Navy in fiscal year 1986?

Admiral GRACEY. It varies, Senator. It comes and goes as the ships are in the area. Those 500 people are not aboard yet. It is one of those things you have to phase into. But during the most recent major operation called Hat Trick, in which there were 10 or 15 Navy vessels operating with us initially down in the Caribbean and 5 to 9 all the time, we had about 125 people that we had pulled out-of-hide to put there in anticipation and in the spirit of this requirement. All those 500 will not be on ships.

Senator D'AMATO. Would you characterize that operation or give me an idea as to what was achieved during that last operation?

Admiral GRACEY. We think what was achieved essentially was that we shut down, essentially shut down maritime trafficking through the Caribbean. The deterrent effect—everybody ran for cover and just stayed in.

Senator D'AMATO. Let me ask you, were any seizures made?

Admiral GRACEY. Yes, sir; but they were way below what used to be the norm for December. The same thing happened to us last year in Wagon Wheel. But last year was the first time and some people down there got caught by surprise.

This year they knew what the effect would be and it lasted much longer. So the seizure rate was down. But yes, we made seizures.

Senator D'AMATO. Has the Coast Guard in any way communicated to either the Congress or the Navy a request to continue this program?

Admiral GRACEY. It is included in the President's budget for 1987, Senator. We would have the billets, and they would be reimbursed by the Navy.

Senator D'AMATO. Do you recommend continuing this program?

Admiral GRACEY. I think it is a good program. It is a good way for us to get people on the Navy ships and to do some backup work with the other services in the drug interdiction area.

Senator D'AMATO. So you foresee this continuing program the balance of this year into next year?

Admiral GRACEY. Yes, sir; if the President's budget is passed.

Senator D'AMATO. I believe if the main utilization of the Coast Guard personnel is in that kind of almost blockade situation, that that is only one small aspect of what the Congress was looking to achieve. We wanted to have available on our Navy ships those who could carry out arrests, searches, and other aspects of drug interdiction without interfering with the mission of the Navy. We wanted to create a viable fighting force in this battle against drugs.

Admiral GRACEY. That is exactly how they were used, Senator. Exactly. And we do it not just during a big operation like that. Anytime a Naval vessel is deploying into an area where traffickers are likely to be, we have Coast Guard teams on them. We have been doing that for about 3 years now.

Senator D'AMATO. What about today?

Admiral GRACEY. I cannot tell you the number today, but if there are Navy ships operating in that area, I would be dumbfounded if——

Senator D'AMATO. In just that one area?

Admiral GRACEY. No; I do not mean "that" area. Any area where they operate: off the west coast, off the west coast of Central America, between the United States and Hawaii, off the U.S. east coast, wherever the Navy ships are sailing where there is likely to be a drug operation headed for our coasts. We do not have them on a ship in the Indian Ocean.

Senator D'AMATO. Well, it is getting pretty bad. That might not be a bad idea there either.

Admiral GRACEY. I am talking about the areas where we normally do the interdiction.

Senator D'AMATO. I understand. But I thought that your remark, you know, some kind of reply on my part. [Laughter.]

Admiral GRACEY. What I can say?

PERSONNEL DEPLOYED

Senator D'AMATO. Touché.

Now, on the more serious side, would you provide this committee with the number of personnel who are being deployed today, April 16, on ships and on what ships they are being deployed?

Admiral GRACEY. We would be happy to do that, Senator.

Senator D'AMATO. Would you do that?

Admiral GRACEY. A caveat?

Senator D'AMATO. Pardon me?

Admiral GRACEY. A caveat?

Senator D'AMATO. Yes; what is the caveat?

Admiral GRACEY. The caveat is that today may not be a good indicator.

Senator D'AMATO. But that is what I want to find out, Admiral. You know, I want to know what is happening today. And let us go back then and also pick——

Admiral GRACEY. How about if we give you some random times, Senator? Would that be all right?

Senator D'AMATO. Well, how about I give you some random times?

Admiral GRACEY. Fine.

Senator D'AMATO. How about April 16, today?

Admiral GRACEY. That is fine.

Senator D'AMATO. OK. And then supposing we go back another week. Subtract 7 from 16 and how about on April 9, OK? April 2. And let's go into the next month and subtract 7 days and give me 7 days from that time into May. All right?

Admiral GRACEY. Do you mean May or do you mean March, sir?

Senator D'AMATO. March.

March 5, 12, 19, 26, and April 2 and 9. OK?

Admiral GRACEY. I have the message.

Senator D'AMATO. I think that will give us an idea. And if you care to summarize and give a narrative as to any additional dates, we would be interested.

Admiral GRACEY. I would like to explain that even when we have all 500, we do not expect to assign them permanently to Navy ships. We expect to put them in and around Navy ports so that when the ships deploy we will put the people on them. We do not want to put them on a ship that is going to deploy somewhere else. It is just a waste of time.

We would rather use those people to train Navy people, to train our own people, to help plan operations. That will be a total package.

INTERDICTION TRAINING

Senator D'AMATO. Is somebody training these people right now?

Admiral GRACEY. Our people? Yes, sir; these are Coast Guard people that we are talking about.

Senator D'AMATO. You mean being trained in this interdiction program? Do they receive any special training in drug interdiction?

Admiral GRACEY. Yes; indeed they do.

Senator D'AMATO. Where does that take place?

Admiral GRACEY. It takes place on site from their own people that are in the business there, that have been previously trained, and it takes place at a school that we have at Yorktown and we have another school on the west coast.

Senator D'AMATO. Is any specific person in charge of that program?

Admiral GRACEY. Yes, sir; I am.

Senator D'AMATO. You are in charge of it?

Admiral GRACEY. That is asking for another touché. It is a part of the Coast Guard training program, Senator, and it is under our Chief of the Office of Personnel.

Senator D'AMATO. You mean it is an important part of your overall mission, therefore, it is part and parcel of the operation?

Admiral GRACEY. Yes, sir; Yorktown is a training center of ours, and one of the schools there is in law enforcement.

Senator D'AMATO. I would be interested in that report.

Admiral GRACEY. Report of the training program or the whole thing?

Senator D'AMATO. The whole thing, and that random sampling as to how many people have been on what boats during those days.

Admiral GRACEY. Yes, sir.

[The information follows:]

The Coast Guard had law enforcement personnel deployed on Navy ships on the dates listed:

Date	Navy vessel	Number of personnel
March 5, 1986	U.S.S. *Lang*	5
	U.S.S. *Meyerkord*	5
March 12, 1986	U.S.S. *Meyerkord*	5
March 19, 1986		0
March 26, 1986		0
April 2, 1986		0
April 9, 1986	U.S.S. *Pigeon*	5
April 16, 1986	U.S.S. *Pigeon*	5

Deployments were low during this period as we had just completed a major winter operation which ended on February 28, 1986. It should also be noted only three Navy ships were available on the east and gulf coasts during this time. During the winter operations we had an average of 30 deployed on Navy ships.

GOVERNORS ISLAND PERSONNEL/SHIPS

Senator D'AMATO. Admiral, could you provide the committee with a report on the categories and numbers of Coast Guard personnel on duty on Governors Island as of—let's take another date—April 1, 1981, 1982, 1983, 1984, 1985, and 1986. Personnel who were stationed there, as well as an inventory of Coast Guard ships indicating the age, downtime, and the repair history of each ship based at Governors Island on those dates.

Obviously, I would like to get a picture as to what is taking place at Governors Island. I see Captain Trainor has got his eyes—you think that is an unusual request, Captain?

Captain TRAINOR. No; I did not mean that. I sailed out of Governors Island myself. I guess I am curious as to why you are asking the question.

Senator D'AMATO. Is it unusual that the Senator from New York would want to know the status of the personnel there over the last 6 years, as well as of the ships, et cetera?

Captain TRAINOR. Certainly not. When I was there, we ran a high tempo operation. I was on the cutter *Gallatin* and I was pleased to serve out of it.

Admiral GRACEY. Senator, I was the Admiral up there before I came here.

Senator D'AMATO. I remember.

Admiral GRACEY. And I was the first Coast Guard officer to live on Governors Island. We would be happy to give you that. It is a headquarters, it is an operating base, it is a maintenance support base, and it has been the site of a training command, part of which has moved to California at this point.

Senator D'AMATO. Oh.

Admiral GRACEY. Pardon?

Senator D'AMATO. Part of which has moved to California?

Admiral GRACEY. Well, because the training environment——

Senator D'AMATO. Everything is moving to California. More defense dollars in California and more other things in Caifornia, more Coast Guard in California. You know, there is always a good reason for it.

Admiral GRACEY. No, sir.

Senator D'AMATO. If we had a President who came from New York maybe we would move them to New York. What do you think?

Admiral GRACEY. I am sorry, Senator. We had the training command in California before the President was the President.

Senator D'AMATO. By the way, I wish the President did live in New York.

Admiral GRACEY. Part of the Governors Island training command moved to Yorktown and other places. We found that Governors Island was getting overcrowded and we had tried to adapt some old Army barracks to training facilities and it was not working. We moved from Groton, CT, down to New York when we took over the island, and it just was not working well. So we tried to put them into a total training environment and cut down the number of different schools so we can economize on our administration and management of our training program.

Senator D'AMATO. In order to be more fair to everybody, you and I should meet at some point to discuss that problem. Obviously it is a source of concern, not only to me but to others who may be considering transferring programs to other areas and leaving New York—I am reminded of a Navy term—high and dry.

Admiral GRACEY. No, Senator; I think that is where I was going with this. I think you will find—you remember I said it was overcrowded? And it was overcrowded because of the buildup of activities. You see, that is not only the headquarters for the Commander of the Atlantic Area and the Commander of the Third Coast Guard District, but it is now the headquarters for the Commander of the Maritime Defense Zone, Atlantic—all the same person, but with different staffs.

We are involved in the drug interdiction aspect; some of the drug interdiction operations are being headquartered there. Our communications and AMVER programs have expanded. There are a number of things that have expanded. So it is a tradeoff, Senator. We are trying to get our people that are scattered around to have a place to live as well.

Senator D'AMATO. I would appreciate it if you would give us that information. Moreover, if you believe it is necessary for us to discuss some other issues at greater length, I would be pleased to make my time available. I know you have got a lot of——

Admiral GRACEY. I would be delighted, Senator. Why don't we send it up, and then we will be happy to answer questions. You will be pleased to know that my successor is Vice Adm. Paul Yost—or will be—and he is coming from 2 years on Governors Island as well.

[The information follows:]

The following cutters were assigned to Governor's Island, NY during the period 1 April 81 - 1 April 86. The cutter, cutter type and the associated maintenance days in each fiscal year is listed below:

Vessel	Class	Current Age	Maintenance Days					
			FY81	FY82	FY83	FY84	FY85	FY86[A]
DALLAS	WHEC	16	166	265	175	236	132	49
GALLATIN	WHEC	15	185	286	171	281	123	33
COWSLIP	WLB	40	B	63	56	B	B	B
SASSAFRAS	WLB	37	57	B	B	B	B	B
SORREL	WLB	41	B	B	29	108	71	9
RED BEECH	WLM	19	74	70	51	79	98	27
TAMAROA	WMEC	40	212	249	200	315	108	B
HAWSER	WYTL	20	115	127	161	138	70	17
LINE	WYTL	20	95	179	200	170	75	21
WIRE	WYTL	20	128	123	147	151	64	51
MAHONING	WYTM	42	150	139	153	137	B	B
RARITAN	WYTM	42	137	135	136	153	97	30
SAUK	WYTM	38	102	156	140	227	105	B

[A] Data available for 1st Qtr FY86 only.

[B] Indicates cutter not assigned to Governor's Island, NY during period.

BILLETS LOCATED AT GOVERNORS ISLAND BY FISCAL YEAR

	1981			1982			1983		
CATEGORIES	MIL	CIV	TOT	MIL	CIV	TOT	MIL	CIV	TOT
AFLOAT	543	0	543	548	0	548	548	0	548
VTS	20	1	21	20	0	20	20	0	20
OPS ASHORE	198	2	200	194	2	196	196	2	198
SUPPORT	287	420	707	287	397	684	277	367	644
TRAINING	258	6	264	258	6	264	254	9	263
DIST/AREA STAFF	457	204	661	467	193	660	453	192	645
GRAND TOTAL	1,763	633	2,396	1,774	598	2,372	1,748	570	2,318

	1984			1985			1986		
CATEGORIES	MIL	CIV	TOT	MIL	CIV	TOT	MIL	CIV	TOT
AFLOAT	548	0	548	539	0	539	442	0	442
VTS	31	2	33	31	2	33	32	6	38
OPS ASHORE	204	2	206	190	2	192	193	2	195
SUPPORT	275	369	644	281	362	643	264	361	625
TRAINING	235	10	245	213	10	223	153	9	162
DIST/AREA STAFF	480	198	678	496	192	688	475	183	658
GRAND TOTAL	1,773	581	2,354	1,750	568	2,318	1,559	561	2,120

Senator D'AMATO. Good.

Admiral GRACEY. And he will be up to speed on what is going on there right now.

FOURTH OF JULY CELEBRATION

Senator D'AMATO. Admiral, one other thought. You mentioned, I understand, earlier that on the Fourth of July, with the celebrations that will be taking place, you will be pressed, I am sure, to the limit. Will that necessitate any additional requests for funds to handle this event—some 40,000 boats are expected to be in the harbor.

I think I am going to stay home and watch it on television. I get frightened when I hear of 40,000 boats coming into that harbor.

Admiral GRACEY. Senator, it will obviously cost us a considerable amount of money, but we have not asked for any to do it. We have reprogrammed within the Coast Guard. When I talk about multimission and talk about contingencies such as the Challenger explosion, for example, which cost us $2 million that we certainly did not plan for, those kinds of things we just know are going to happen. They do every year. There are hurricanes. There are all kinds of things that happen. We just know they are going to and——

SUPPLEMENTAL NEED/FUNDING

Senator D'AMATO. So you feel comfortable that you can handle it within your budget, and you are not going to have to look for some additional funds? Because I think now is the time to speak.

Boy oh boy, I would. Otherwise, you are going to have guys who do not have ropes or—what do you call them—lines. You have old lines.

Admiral GRACEY. Well, all Coast Guardsmen have lines. [Laughter.]

And one I would like to try on you, Senator, is that the supplemental the President sent up here that is going to get us through this year. Without it, that is just going to complicate this Fourth of July thing.

If I can make another pitch for that supplemental, I want to do it.

Senator D'AMATO. Ha, ha, ha. Take $30 million from transit formula grants, mass transit. You know, why don't we take it from the furniture account at OMB? [Laughter.]

Oh, you will take it from wherever you can get it. That is good. I will be with you. But it is not going to come from transit formula grants.

Oh, and then are you going to take it from Amtrak like the FAA?

Well, you know, that is like giving you something with one hand and taking it away with the other.

Admiral GRACEY. That is what a no-fund supplemental is, Senator.

Senator D'AMATO. I think you need the money. I want to support it. And I am going to support the appropriation. But I am certainly not going to do it from there. Let's get rid of one missile someplace. I support a strong defense, but the Coast Guard is as much a defense effort as some other areas. Maybe it is about time we began to consider it in that light, instead of minimizing the Coast Guard's importance to our national defense. You should not be competing with mass transit dollars or for them or against other areas. It is just not right when we consider your mission. Your mission is an important one, a complex one in terms of the promotion of maritime safety and also the defense of our people. Right now, I cannot think of anything more important than the war on drugs, which we are losing.

We have no war. It is a joke. I hate to categorize it that way, but let me be more particular. It is being addressed inadequately. I do not lay that at the doorstep of the Coast Guard because the war on drugs requires a lot more than just the Coast Guard to be effective. But if we are going to be effective, my gosh, you know we are going to have to see to it that the Coast Guard gets the funds that they need. They should not have to come before the Congress and be in this kind of position where they are looking to secure needed funds from other Federal programs. That simply is not fair to the men and women who make up your great service, and it is a great service, and I want you to know that.

Admiral GRACEY. Thank you, Senator.

Senator D'AMATO. And I want you to know I appreciate your work as well as the hard work of all those in your command. They have given much and their efforts have saved lives. There is no finer service. I just really do not think we should be looking for your funds in this manner, robbing from Peter to pay Paul, to borrow the old expression.

I think you are entitled to a more secure source of funding to carry out the basic mandates under your charge. I want you to know that.

I also want the record to reflect that I have the greatest esteem for the Admiral. I commend you for the fine job that you have done. Although I may ask some questions that have a parochial aspect to them, I also believe that the New York area is a critical one with respect to drug interdiction. I know there are other such areas, and I know other Senators who are interested in the Gulf of Mexico area and the Florida area and I think they certainly have legitimate concerns as well.

If we have to give you the resources to meet those challenges, well my gosh, that is what we have to do.

I leave you with the thought that sometimes you have got to tell us what you need. You will not get the people at OMB to do it. They will not be happy. But I think that we need a little more of that kind of candor.

Admiral, let me thank you for letting me share some of these thoughts with you and I congratulate you on your efforts. I think now that the staff is trying to tell me that I have to say something before we recess.

[Pause.]

REQUEST FOR $375 MILLION ADD-ON REPROGRAMMING

Senator D'AMATO. I have been informed that Senator Byrd, Admiral, has a point of particular interest. It deals with the committee's request and your strong support or Senator Stevens' strong support for the $375 million for fiscal year 1986 Navy appropriation for Coast Guard equipment, including $72 million for four C–130 aircraft which were to be assembled.

I understand there may have been thought of reprogramming those funds. I would like to know if you still are supportive of that concept. I can tell you that this Senator, Senator Byrd, and Senator Stevens certainly are. We strongly are in accord and we are opposed to any reprogramming of those funds.

Are you aware of that? Are you aware of any possible reprogramming requests with respect to these funds?

Admiral GRACEY. Yes, sir; I am.

Senator D'AMATO. I thought I would just share with you that both Senator Stevens, Senator Byrd, and myself are opposed to any such reprogramming.

Admiral GRACEY. Earlier, I think it was Senator Andrews asked me if I thought that 29 C–130's would be sufficient. That is the number that now seems to be agreed between the administration and the Senate or some Senators anyway. There seems to be an agreement on buying three rather than four, and that would give us 29 C–130's.

He asked me if I thought that was sufficient, and I said it is going to give us all the operating capability we can use effectively for the foreseeable future. We are taxing our ability to maintain and fly and even park and hangar the aircraft. You see, that will give us eight that will have been added in the last few years, and that is going to do us very nicely, especially in view of the fact that we are putting forward-looking radar on the aircraft.

FUTURE AVIATION REQUIREMENTS

Senator D'AMATO. Admiral, I think you have in here in your report, aviation requirements for fiscal years 1987 through 1991, the long-range requirement of some 40 aircraft. Is that still valid?

Admiral GRACEY. Senator, we have a number of planning documents that are produced in the Coast Guard, and we have what we call the long-range view. We have a capital acquisition plan. They get into increasing degrees of tightness. We start off with what we call unconstrained planning, just—it is unconstrained thinking.

OK, if—what if?

Senator D'AMATO. You mean your wish list?

Admiral GRACEY. No; it is not a wish list. It is a——

Senator D'AMATO. I was trying to help you out. [Laughter.]

Do you mean something like if you could have everything, you would like to have that.

Admiral GRACEY. No; it is not that, Senator. It is an analysis of what possible kinds of things might happen out in the future that might cause a call on our hardware. That particular iteration of that particular plan which is a Blue Sky plan, if you will—I was surprised to see the number in there myself.

I have testified before that out into the 1990's, we would probably need about 31. But at the moment the hard planning shows that with this forward-looking radar we are going to put in the C–130's, which will make them much more productive, much more effective, that, combined with some of our other constraints and opportunities, 29 should be just fine.

SUBMITTED QUESTIONS

Senator D'AMATO. OK. Thank you, Admiral Gracey. We have some questions which we will submit in writing and ask for a timely response.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR ANDREWS

LIBYAN SITUATION

SENATOR ANDREWS: The Subcommittee has received reports of Libyan attacks against the Coast Guard Station at Lampedusa, an Italian Island. Please share a status report on the situation.

ANSWER: Coast Guard LORAN Station Lampedusa reported hearing two explosions in the water near the island at about 1235 local time, 15 April 1986. There were no injuries, and the station continued to transmit its signal. Personnel temporarily evacuated the station buildings and Italian authorities investigated the incident. Further details are classified for security reasons.

The island of Lampedusa is located approximately 160 miles north of Libya, and is the closest Italian point to that country. In addition to the Coast Guard LORAN-C station, the island also contains an Italian Air Force communications center, as well as a small garrison of Carabinieri and Guardia de Finanza. The Italian Armed forces conduct periodic exercises on the island, including paratroop drops.

Commander, Coast Guard Activities Europe has operational control of European LORAN-C stations. He remains in close contact with various U.S. military and NATO commands, as well as the Italian forces.

SENATOR ANDREWS: How many Coast Guard personnel are stationed there, and are there any evacuation plans?

ANSWER: Thirty Coast Guard personnel are assigned to LORSTA Lampedusa. Arrangements have been made for the evacuation of Coast Guard personnel from the island to Naval Base Sigonella, Italy, should the situation warrant.

SENATOR ANDREWS: What would the impact on navigational capability in the Mediterranean be if damage occured to the LORAN facility?

ANSWER: If LORSTA Lampedusa were damaged to the extent where it could no longer transmit its signal, the majority of LORAN-C coverage in the Mediterranean Sea would be lost.

OPERATING EXPENSES

SENATOR ANDREWS: Without the $35.5 million supplemental, what other specific program impacts will take place this fiscal year?

ANSWER: Without the $35.5 million supplemental appropriation the Coast Guard would be forced: (1) by mid-summer, our peak operating season, to begin selectively removing from service ships, aircraft and stations for which sufficient maintenance has been deferred or parts replacement delayed such that safe and reliable operation can no longer be assured; (2) to begin immediately to cut back on the number of recruits who would normally have replaced personnel whose enlistments expired; and (3) to continue early release of personnel scheduled for discharge within 6 months. Depending on the state of repair of operating units or unforeseeable contingencies causing a drain of available funds, actions similar to "(1)" above may also be necessary to release funds for remaining operating units.

SENATOR ANDREWS: Why must there be any cuts at all in FY 1986 when both this year's justification and last show the same $1.8 billion in obligations.

ANSWER: Obligations estimated for FY 1986 have decreased in the FY 1987 Justifications when compared to the FY 1986 Justifications. The FY 1987 Justifications (p. 22) must be netted with the Gramm-Rudman-Hollings sequestering (p. 57). When this is done, estimated FY 1986 obligations are reduced by $70 million. Additionally, there are other items to pay for that were not in the original FY 1986 budget request. These include a military pay raise ($30 million), restoration by Congress of stations on the Great Lakes ($5 million), a proposed civilian pay decrease of five percent that did not materialize ($6.6 million), and a law enforcement (TACLET) program aboard Navy ships ($15 million). No additional funding above the President's FY 1986 budget request level was provided to support these new requirements. Thus, although obligation levels (before the Gramm-Rudman-Hollings cut) were little changed in total from the President's request, they had to pay for a significant increase in requirements.

GRAMM-RUDMAN-HOLLINGS DRUG INTERDICTION IMPACTS

SENATOR ANDREWS: The Continuing Resolution for FY 1986 (P.L. 99-190) directed that of the funds provided for Operating Expenses, not less than $328 million shall be available for drug enforcement activities. This earmark was reduced by $14 million by the Gramm-Rudman-Hollings sequestration. How much do you estimate will actually be expended for drug enforcement in FY 1986 if a supplemental appropriation for Operating Expenses is not provided?

ANSWER: Based on the FY 1986 Continuing Resolution, the Coast Guard planned to spend $360 million (including DOD transfers) on drug law enforcement in FY 1986. After the reduction for the Gramm-Rudman-Hollings Act, it is estimated the Coast Guard will spend $344 million on drug law enforcement in FY 1986, if no supplemental appropriation is provided.

SENATOR ANDREWS: The $328 million earmarked in the Continuing Resolution to carry out drug enforcement activities was partially intended to assure that the eight new patrol boats delivered to the Coast Guard in the 7th District in FY 1986 would be able to operate for 180 days of the year. Have you or will you reduce patrol boat operation to achieve Gramm-Rudman-Hollings cuts?

ANSWER: We have just begun to take delivery of the new 110-foot patrol boats and they are not yet fully operational. G-R-H has not delayed us from putting these boats into service. Routine patrols of existing boats have been cut back because of G-R-H cuts, except ~~in the~~ Seventh District, where there is no doubt about the high level of illegal activity occuring.

SENATOR ANDREWS: Have efforts been made to minimize the impact of reductions in the 7th District -- the area where there is the greatest evidence of illicit activities -- or are proportionate reductions being taken from operations in all districts?

ANSWER: Although some operating reductions have affected all districts, the impact has been minimal in the 7th District since drug law enforcement is a high priority program. We know that the 7th District is a "hotbed" of drug law enforcement activity. Our slow down/squeeze down instructions were carefully selected to minimize any impact on known areas of illicit activity or in situations where specific intelligence exists.

DRUG LAW ENFORCEMENT PROGRAM JUSTIFICATION

SENATOR ANDREWS: According to a statement attributed to the Coast Guard in a 1983 GAO report, you would have to seize 75 percent of the marijuana entering the United States before drug traffickers would be driven out of the market. Is this statement still accurate? Why, or why not?

ANSWER: Estimates between 70 and 75 percent were much heralded numbers published at that time and based in part upon a 1982 classified CIA study. The numbers were best estimates for that particular time and under particular smuggling scenarios. Times have changed and smuggling tactics have become more expensive in attempts to find successful means of trafficking narcotics. Based upon the effect we are having against traffickers now, however, we suspect that less than 75 percent would be needed, but there have been no recent studies on the subject. Some smuggler reactions to our increasing effectiveness include increased use of sophisticated hidden compartments which necessitate smaller loads per trip, increased use of smuggler counter-surveillance measures including their own spotter aircraft, and increased use of other modes of transportation which result in smaller loads.

SENATOR ANDREWS: Would this 75 percent seizure level apply to cocaine and other drugs in order to drive traffickers out of business? If not, why?

ANSWER: To our knowledge no studies have been done regarding seizure levels for cocaine and other drugs. The study which estimated 70-75 percent seizure level was for marijuana.

SENATOR ANDREWS: What additional annual funding would be required to seize 75 percent of marijuana entering the United States?

ANSWER: We don't know. However, it is probably more than the U.S. Budget can accomodate. We are working on various interdiction strategies which will keep the druggers guessing, making their efforts as costly as possible. In the meantime, the Departments of State and Justice are working on crop reduction within the source countries and much effort is being put into demand reduction within the U.S. It is only through the use of such a multifaceted strategy that we can hope to be successful in stopping drug smuggling and use. Interdiction, by itself, cannot do it.

SENATOR ANDREWS: What additional annual funding would be required to seize 75 percent of cocaine entering the United States?

ANSWER: As with marijuana, we don't know, but we would expect the costs to be extremely high.

SENATOR ANDREWS: You stated before the House Transportation Appropriations Subcommittee in February that, if cost were not a factor, your goal would be to stop the flow of marijuana and cocaine and other illegal drugs into this country by sea within three years. Is this goal achievable?

ANSWER: If cost were not a factor, our goal could certainly be to stop all drugs entering this country by sea. A total 100% interdiction rate is certainly not achievable without a massive federally coordinated effort directed at all land, sea, and air borders, which include all ports of entry and all unprotected border areas in between. But such an effort is unrealistic and could not be done.

SENATOR ANDREWS: If this goal is not achievable, what is a realistic goal? In other words, how can we determine for the taxpayers whether the Coast Guard drug interdiction program is a success?

ANSWER: There are many ways to measure success. One is by setting a percentage goal ahead of time and then estimating whether or not it was reached. For a host of reasons this is simply not practical or realistic.

Another way is to observe signs that traffickers have been forced to adopt more difficult and more expensive means of getting their drugs to "market." Indicators that this has happened are legion.

A third method is to weigh the cost of the interdiction effort against the economic and sociological costs to America without it. For a cost of $330 million, the Coast Guard keeps about $2 billion of illegal drugs off the streets - a ratio of 1:6. A variation on this method is to consider the impact if all those drugs we stopped had found their way into America ... or the loss to our economy of that $2 billion flown out of the country.

With a national problem as pervasive and insidious as drug abuse, the solution rests in a combination of short term and long term measures - the former to hold the line while the latter takes effect. Interdiction needs to be viewed as a short term measure to create a favorable environment for the less expensive and longer term solutions of demand reduction through education and supply reduction through eradication to take effect. Interdiction is intended to make trafficking and hence, narcotics, as expensive and difficult as possible ... and to keep as much off our streets as possible.

1987 BUDGETARY RESOURCES

SENATOR ANDREWS: The President's budget states that in 1987, drug law enforcement will continue to receive major emphasis with 15 percent of the total Coast Guard budget in support of efforts to interdict maritime drug smuggling. This represents about $360 million out of your total budget request of $2.4 billion. What considerations led to your proposing a 10 percent increase in funding for drug interdiction from the level provided for 1986 in the Continuing Resolution?

ANSWER: FY 1987 Operating Expenses is essentially a no growth budget in terms of program levels. New funding provides basically for only three things: the FY 1986 unfunded military pay raise; a reduced cost-of-living; and follow-on operation of capital investments. The first two of these are allocated proportionally across all programs and account for about 5 to 6% of the drug interdiction increase. Since most of the new equipment coming into operation has a high percentage application to law enforcement, follow-on funding accounts for the remainder of the 10% growth in drug interdiction.

SENATOR ANDREWS: What was the Coast Guard's request to OMB for drug interdiction funding?

ANSWER: The Coast Guard's FY 1987 Operating Expense request to OMB for drug interdiction funding was $376,331,000.

SENATOR ANDREWS: What additional drug interdiction activities would be possible at this increased funding level?

ANSWER: Additional interdiction activities will include operation of 2 new 270-foot WMECs, 5 new 110-foot WPBs, a C-130 aircraft, fastboats, sea-based aerostat systems, and multiple-crewing of a 110-foot WPB squadron to achieve additional operating hours. WMECs and WPBs entering the fleet will replace older, obsolete vessels, but will have greater capabilities.

SENATOR ANDREWS: Why, in your estimation, would the President's 1987 budget cut the U.S. Customs Service air drug interdiction program by $20 million, a 27 percent decrease, while at the same time increasing Coast Guard interdiction funding by $32 million? Is this a measure of the programs' relative effectiveness?

ANSWER: In the Major Policy Initiatives section of his FY 1987 budget the President noted that the Custom Air Drug Interdiction program reduction "...avoids additional expenditures for a program that has not proven to be cost effective." Further, it "...reflects a reorientation of scarce resources from interdiction programs into investigations and intelligence." Also, "adequate funding is provided to maintain the Customs detection capability at its 1985 level by concentrating resources on the elements most crucial to the success of the program." As a result, "this produces a government-wide drug enforcement request that offers the best chance of gaining on the war against drugs, while at the same time exercising fiscal restraint in the face of large Federal deficits."

EFFECTIVENESS OF DRUG INTERDICTION

SENATOR ANDREWS: A recent newspaper account reported the seizure of 1,000 pounds of cocaine by Federal authorities in New York. This seizure represented only about one-fourth of the cocaine a New York City gang imported each week from Colombia. The President's Commission on Organized Crime recently released a report citing a dangerous increase in the amount of drugs used in this country and also discussed a disturbing trend toward the increased use of cocaine and other "hard" drugs by middle class Americans. The report further found marijuana use "firmly entrenched in American society" and stated that 20 million Americans use the drug at least once a month. This is a significant national problem which shows no signs of abating. Given these kinds of findings, how would you assess the effectiveness of increased funding for drug interdiction in reducing the availability of illegal drugs?

ANSWER: In order to be effective at reducing drug availability, all modes of narcotics transportation have to be effectively shut down , requiring efficient coordination of multiagency efforts. Indicators other than availability and price have shown that maritime efforts are having an impact on trafficking organizations. Operations, such as the recent multiagency, international efforts, have effectively shut down maritime trafficking from the major source countries for short periods of time. However, air and land trafficking, especially from Mexico, have grown tremendously in response to the increased pressure in Colombia and elsewhere. Unless trafficking by all modes is reduced, availability will not decrease substantially. Coast Guard seizures of cocaine being trafficked by sea have increased markedly in the past two years.

SENATOR ANDREWS: How effective can the Coast Guard be in the interdiction of cocaine and other drugs which are more profitable and easier to conceal than marijuana?

ANSWER: Because it is a high value drug, cocaine can be shipped in small quantities, easily concealed in vessels. Indications are now that cocaine is increasingly being shipped by sea and in sizeable quantities. Through increased intelligence and our normal, thorough search procedures, the Coast Guard is becoming more effective in detecting and interdicting cocaine. Coast Guard cocaine seizures have gone from 46 pounds in 1983 to 1,967 pounds in 1984 to 6,547 pounds in 1985. During the first three months of this year, 3,009 pounds has been seized. While most of this increase may be attributed to the increased smuggling of cocaine by sea, much of the increase is also due to better intelligence and search procedures.

SENATOR ANDREWS: What adjustments have been made in interdiction methods in response to the apparent increase in cocaine smuggling?

ANSWER: The Coast Guard is constantly reacting and adjusting procedures to new smuggling threats. We are obtaining fastboats for use in South Florida, assisting the Customs Service in establishing their Joint Maritime Interdiction Command Center (JMICC), concentrating more intelligence collection efforts, and implementing other new initiatives to counter the increasing incidents of cocaine smuggling by sea.

SENATOR ANDREWS: The Justice Department stated in 1983 that drug interdiction "is nothing more than a maintenance effort which, standing alone, will never have any permanent effect on drug traffic". Do you agree with this statement? Why, or why not?

ANSWER: Yes. Interdiction alone can never be a long term solution. Interdiction must be considered a holding action until the long term solutions of demand reduction through education take effect. Interdiction is intended to make trafficking as costly as possible to the smuggler in terms of less profits and threat of conviction. Interdiction, however, is a vital part of the national strategy as it is a highly visible demonstration of national will and resolve to rid our streets of illicit narcotics.

SENATOR ANDREWS: Do you believe that applying significantly greater funding to Coast Guard drug interdiction efforts is an effective way to control the national drug problem? Please elaborate.

ANSWER: At some place interdiction begins to reach a point of diminishing returns where increased effort is just not worth the expense, especially when balanced against other priority programs.

The Coast Guard has not reached that point, but there is a limit to how much money we as a government can put into interdiction. Speaking strictly to maritime interdiction, we think the present program level is a reasonable investment for the results being realized.

BALANCE OF EXPENDITURES

SENATOR ANDREWS: Drug supply reduction expenditures presently account for more than three-quarters of the Federal drug enforcement budget. Yet even given this emphasis on supply reduction, the availability of drugs on the streets seems not to have perceptively declined. You stated in testimony before the House that because interdiction is so capital intensive, you probably get more for a given dollar in the demand reduction arena than you do for a given dollar in the interdiction arena. In your opinion, would the overall Federal drug enforcement program be more effective if we diverted funding from drug interdiction to demand reduction programs? Why, or why not?

ANSWER: No. Funding should not be diverted from the drug interdiction program to the demand reduction programs. Any effective program must strike a balance between short and long term goals. The National Strategy for Prevention of Drug Abuse and Drug Trafficking is no exception. Interdiction and eradication in themselves cannot reduce demand and demand reduction programs cannot readily take effect in an environment where narcotics are available in cheap, plentiful supply. Interdiction and eradication help create a favorable environment for the less expensive demand reduction programs to take hold. Maritime interdiction, in combination with source country eradication programs are just beginning to have a major impact on maritime trafficking, forcing the traffickers to other means of trafficking. Reduction now would reverse this progress, before demand reduction programs have had an impact.

DOD COOPERATION

SENATOR ANDREWS: Last year you testified that the Coast Guard received "a great deal of flight time" from the Navy, Air Force and Marines. How many hours were provided from each service in FY 1985 and to date this fiscal year? How many E-2C flight hours were involved?

ANSWER: According to the Department of Defense, during FY 1985 the Navy provided over 4,000 flight hours and the Air Force provided 200 flight hours in support of the Coast Guard's drug law enforcement efforts. During the first quarter of FY 1986, Navy aircraft flew 2,000 flight hours in support of Coast Guard law enforcement, with over 1,600 of these hours flown during Operation Hat Trick II. Additionally, Marine Corps flight hours (1,279 in FY 1985) and E-2C flight hours (1,679 in FY 1985) have been primarily in support of the Customs Service air interdiction program. The Coast Guard has received only limited E-2C flight hours (216 hours in FY 1985 and 54 hours in the first quarter of FY 1986), because the E-2C is best used for its air surveillance capability, as opposed to surface surveillance.

LAW ENFORCEMENT DETACHMENTS

SENATOR ANDREWS: The subcommittee received testimony last year that for 1985 and 1986 there would be 460 deployment days for the Coast Guard law enforcement detachments. Were those figures realized?

ANSWER: Coast Guard law enforcement detachments deployed in Navy ships a total of 430 days in FY 1985. For FY 1986, as of April 15, they had deployed in Navy ships a total of 535 days.

INSPECTOR GENERAL FINDINGS

SENATOR ANDREWS: The Office of the Inspector General's Semiannual Report for the first half of 1985 states that the Coast Guard needs to reevaluate the effectiveness of its law enforcement operations, particularly in meeting increased demands for drug interdiction. The Inspector General believes that drug interdiction operations were decentralized with little control being exercised at the Headquarters and District levels, and that operating units such as groups, bases, and stations generally performed whatever drug enforcement they deemed necessary. What is your reaction to these findings?

ANSWER: Coast Guard drug interdiction operations are necessarily decentralized. Operational control of assets are intentionally left with the Coast Guard District and Area Commanders. The Coast Guard is a large, multi-mission organization and its assets must be shared among these missions. Operational control must be placed at the lowest level capable of weighing alternatives, assigning and changing priorities, and directing appropriate action. Headquarters sets policy and general guidelines, but the ultimate responsibility for the most efficient use of assigned resources to meet the various requirements must be at the local level. The on-scene commanders, most capable of knowing the local situation, must call the shots. Proper emphasis and coordination of drug enforcement efforts are properly the function of the senior field commander (Atlantic and Pacific Area Commanders). Tactical conditions are assessed and appropriate actions are taken within the limits of available resources by each District Commander operating within each Area command. Strong central control of forces sounds good but in tactical situations is very limited in effectiveness.

SENATOR ANDREWS: The Inspector General recommended in response to these findings that the Coast Guard (1) evaluate its Districts' enforcement operations and have these Districts make optimum use of shore unit boats for drug interdiction, and (2) provide more large cutters for drug interdiction on the West Coast. Have you implemented these recommendations? If not, why not?

ANSWER: Yes. The emphasis on drug interdiction Coast Guard-wide has increased. Expanded and more forceful boarding policies have been implemented this past summer on the West Coast and in Alaskan waters. We are focusing our Senior Officer Maritime Law Enforcement courses on officers in positions of leadership. More intra-service training and indoctrination programs are being used to heighten the awareness and involvement of those personnel in the field, especially those operating small boats from shore units.

General guidelines have been established within which the districts must manage their shore station resources. These requirements are, of course, balanced against the needs of other missions and the level of threat for drug smuggling in that particular geographic area. The Area Commanders are deploying the High Endurance cutters to a much greater extent to counter the drug trafficking problem.

SENATOR ANDREWS: What management control does Headquarters maintain over operating units involved in drug interdiction?

ANSWER: Headquarters sets policy, provides funding, publishes operating parameters and maintains general oversight. Area and District commanders control the specific operating units assigned to them.

COORDINATION OF DRUG ENFORCEMENT ACTIVITIES

SENATOR ANDREWS: You have stated in the past that the Administration's drug enforcement strategy involves a variety of efforts related to both supply reduction and demand reduction. Primary authority and responsibility for drug interdiction activities are divided among three agencies in three executive departments - the Treasury Department's U.S. Customs Service, the Justice Department's Drug Enforcement Administration, and the Department of Transportation's U.S. Coast Guard. A 1983 GAO report found that each of these agencies had different programs, priorities, and goals, and concluded that Federal drug interdiction efforts have been hindered by a lack of coordination among Federal law enforcement agencies. Do you agree with this assessment? If not, why?

ANSWER: The assessment may have been correct at the time of the report, but it is certainly no longer true. Significant changes have been made since that time. The National Narcotics Border Interdiction System (NNBIS) has made favorable contributions to interagency coordination and has planned and coordinated several multiagency, international joint narcotics operations. The Organized Crime Drug Enforcement Task Forces (OCDETFs) have coordinated the multiagency efforts of investigating major crime organizations. The Coast Guard and Customs Service have been working together on several programs of interest to both services, including Aerostat operations and the new Joint Maritime Interdiction Command Center (JMICC). The National Drug Enforcement Policy Board, chaired by the Attorney General, was established by the Congress in October, 1984. The Policy Board is responsible for national policy and strategy development, review of resource allocations and budget priorities, and the coordination of intelligence and enforcement activities.

In summary, the Drug Enforcement Administration, Customs Service, and Coast Guard have developed a truly effective working relationship not only among our own agencies but with all those who contribute to fighting the drug problem.

SENATOR ANDREWS: The mission of the National Narcotics Border Interdiction System (NNBIS) is to coordinate Federal drug interdiction efforts. What role does NNBIS play in determining the level of resources the Coast Guard will apply to drug interdiction?

ANSWER: NNBIS does not determine the level of resources the Coast Guard should apply to drug interdiction. It makes recommendations to the Coast Guard, after collating intelligence, assessing threats and prioritizing targets, upon which the Coast

Guard may react if resources are available. NNBIS does coordinate operations involving the efforts of more than one federal agency, or when federal and state/local law enforcement agencies are involved.

SENATOR ANDREWS: Has NNBIS improved the acquisition of drug smuggling intelligence information from sources other that Coast Guard intelligence units? Why, or why not?

ANSWER: Yes. NNBIS provides a much broader and more rapid mechanism for disseminating intelligence and information than existed previously. The Operations Information Centers (OIC), a part of the NNBIS organization, allow rapid coordination of the various law enforcement agencies and DOD resources to effectively track and interdict suspect vessels. The Coast Guard has been pleased with the results of NNBIS. Through the coordination attained by a joint center, the combined resources of all involved agencies are more effectively brought to bear on the smugglers.

SENATOR ANDREWS: How often has NNBIS recommended a Coast Guard drug interdiction activity that otherwise would not have occurred?

ANSWER: Coast Guard statistics on drug seizures do not separate those which were successful due to NNBIS coordination. However, there have been many successes. For example, Southeast Region statistics provided by the Officer in Charge of the NNBIS Intelligence Center in Miami indicate that 41 percent of the vessel and aircraft seized since the formation of NNBIS in June 1983 were accomplished with some degree of NNBIS involvement. NNBIS has been most effective in the planning and coordination of major, multi-agency, international operations, rather than individual case involvement.

SENATOR ANDREWS: At what point in a Coast Guard interdiction operation is NNBIS notified?

ANSWER: NNBIS acts as a coordinator in the planning and execution of major, multi-agency, international operations, rather than individual case involvement. However, during the prosecution of a strictly Coast Guard interdiction case the appropriate NNBIS operations center is notified by message situation reports for their use in developing further information that may be of value to other agencies.

SENATOR ANDREWS: How effective is NNBIS in facilitating access to military resources for Coast Guard drug interdictions?

ANSWER: The Coast Guard uses long established direct liaison procedures for the day-to-day use of Navy resources, such as candidate ships for TACLET deployments, and routine patrols through areas of interest. However, NNBIS has been most helpful in facilitating the availability of aircraft from all the services, such as AWACS, E2C's, and P-3's, and other specialized equipment such as satellite communication terminals and portable radar sites. To request these more specialized and limited types of equipment, NNBIS is invaluable. Their knowledge of the requirements of the other services and the ability to maintain a consolidated overview of the total national effort is essential in achieving proper management of interdiction activities.

SENATOR ANDREWS: Do you view NNBIS as an asset or a hindrance to Coast Guard drug interdiction efforts?

ANSWER: The Coast Guard has found NNBIS to be a very useful and positive vehicle for agency coordination. NNBIS is certainly an asset to Coast Guard drug interdiction efforts, since it provides a single point of contact for requests for DOD assistance, and has resulted in extensive use of DOD resources. Through the coordination achieved by a joint center, the combined resources of all involved agencies are more effectively brought to bear on the smugglers. As such, NNBIS serves as a force multiplier. But, perhaps more importantly, NNBIS visibly demonstrates the Administration's highest level dedication to solving the drug problem of this country.

SENATOR ANDREWS: Provide for the record the amount spent by the Coast Guard in each of FY's 1985-1987 for NNBIS support.

ANSWER: "One-time" funding for Fiscal Year 1985 was higher due to the establishment of the Western Subregional office in Honolulu. Each of these years have also seen special operations coordinated by NNBIS and supported with Coast Guard funding. It is too early to identify the level of funds which will be required in Fiscal Year 1987 for additional "one-time" needs and special operations.

COAST GUARD NNBIS SUPPORT:

	FY 1985	FY 1986	FY 1987
Recurring Funds	$656,500	$716,500	$710,500
One-time Funds	$479,292	$ 80,000	Unknown
Special Operations	$122,000	$760,923	Unknown
TOTAL:	$1,257,792	$1,557,423	$710,500 (minimum)

INTERDICTION PROGRAM OPERATION

SENATOR ANDREWS: Given the level of resources available, are you satisfied with the operation of the Coast Guard drug interdiction program?

ANSWER: We are exerting the maximum interdiction effort with available resources. We are satisfied we can and are having an effect on helping to reduce the problem. In an attempt to avoid the expensive losses of shipments to our interdiction efforts, a radical shift in shipping methods and practices by smugglers has become evident. Smaller loads are being shipped, with corresponding increases in numbers of shipments. Great pains are being taken to use complex hidden compartments, often requiring major modifications to the hull and interior of the vessels. An increase in airdrops to motherships north of the choke points where we have been concentrating our efforts have been noted. These methods are costly to the smuggling organizations. Additionally, our seizures of cocaine has continued to increase, a much more expensive commodity for the smuggler to lose.

These efforts are increasing the cost of doing business for everyone, smuggler and law enforcement agencies alike, but it is this deterrent effect of loss of vessel, loss of drugs, and prison terms that has the greatest impact upon the smugglers.

SENATOR ANDREWS: What improvements could be made that would enhance the cost-effectiveness of the program?

ANSWER: The best improvement would be better quality and quicker dissemination of the intelligence information gathered by various agencies that can be used to determine the most effective use of available resources. This is by far the single most important factor in effective use of forces. The ability to respond to a specific place at a specific time would greatly reduce the time devoted to random patrols and allow us to concentrate our patrolling forces in the areas of highest threat. The addition of newer and better sensors on our units and the enhancement of multi-agency intelligence gathering and sharing are important steps in streamlining and enhancing our national efforts.

SENATOR ANDREWS: What efforts are underway to establish sufficient coordination of drug interdiction efforts among the involved Federal agencies?

ANSWER: The National Narcotics Border Interdiction System (NNBIS) has proven to be useful in fostering interagency coordination and cooperation in multiagency interdiction operations. NNBIS has experienced many successes, notably Operation Blue Lightning, and the two Hat Trick operations. These required the coordination of many U.S. agencies and the cooperation of a number of foreign governments. These operations demonstrated the effectiveness of coordinated efforts in stopping the flow of drugs into the country.

The National Drug Enforcement Policy Board will begin a program this year to look at Federal agency interdiction policies, efforts, and effectiveness.

WARRANTIES

SENATOR ANDREWS: Last year the Coast Guard testified that the implementing regulation was pending in the Office of the Secretary. When was it issued?

ANSWER: The warranty regulation has not yet been issued by the Office of the Secretary of Transportation (OST). OST expects to publish the proposed warranty regulation for public comment in the Federal Register by June 1986.

SENATOR ANDREWS: Why did the Coast Guard rely on FAA's cost savings study rather than perform its own?

ANSWER: Upon review, the FAA's cost savings study appeared to be very thorough and well supported. Because of the cost involved, we did not want to duplicate their efforts. Instead, we subsequently analyzed individual Coast Guard acquisitions for warranty application, independent of the FAA study. Our results have reinforced FAA's finding that warranty provisions are cost effective only on a highly selective basis.

SUPPLEMENTAL

SENATOR ANDREWS: How much of the requested $35.5 million supplemental is for the 3% military pay raise which went into effect October 1, 1985? How much is necessary to replenish Gramm-Rudman-Hollings cuts? How much of that amount is being absorbed.

ANSWER: In FY 1986 the Coast Guard is facing a $142 million shortfall in the Operating Expenses Appropriation. This includes: shortfall between President's budget and Continuing Resolution ($36 million), unfunded military pay raise ($30 million), and Gramm-Rudman-Hollings sequestration ($76 million). Of this total $142 million shortfall, Coast Guard is proposing to offset about $46 million of it; $35.5 million by supplemental appropriations and $10.4 million by transfer from the Acquisition, Construction, and Improvement Appropriation as permitted by the Coast Guard's Authorization Act (P.L. 98-557). The remaining $96 million will be absorbed through our "squeeze down/slow down" policy by depleting inventories, by delaying maintenance, and by postponing training. None of the requested supplemental funds are specifically earmarked for personnel compensation. However, because pay is a legal entitlement, those costs must be fully funded from whatever total appropriation is available to the Coast Guard.

SENATOR ANDREWS: How was the decision reached to transfer $30 million from Transit Formula Grants?

ANSWER: The Supplemental was formulated based on the premise that it would be "outlay neutral", in keeping with the deficit reduction requirements of the Gramm-Rudman-Hollings Act. All proposed increases had to be offset by corresponding decreases. All funds within the purview of the Secretary of Transportation were considered in this decision.

SENATOR ANDREWS: A transfer of $10.4 million from Acquisition, Construction & Improvements is apparently being made, pursuant to the Authorization Act. The Senate Appropriations Committee has made clear it expected limited use of this extraordinary authority, as well as sufficient notification. When and how did the Secretary make the "national interest" determination required by section 5(a) of P.L. 98-557, the Coast Guard Authorization Act of 1984? Provide copies of the required notification letters to the Authorizing Committees.

ANSWER: We agree and appreciate the need to use this transfer authority on an extraordinary basis. Gramm-Rudman-Hollings reductions combined with other significant budget shortfalls necessitated our using it in FY 1986. The Secretary determined that transferring $10.4 million to the Operating Expenses appropriation was in the national interest since the funds are needed to support operation of essential maintenance and support of Coast Guard services. These funds will be used for aircraft, cutters, boat stations, and marine safety facilities, and for training of associated personnel.

Copies of the notification letters to the Authorizing Committees, dated April 16, 1986, are enclosed.

Letters From Elizabeth Hanford Dole, Secretary of Transportation

April 16, 1986

The Honorable Walter B. Jones
Chairman, Committee on Merchant
Marine and Fisheries
House of Representatives
Washington, D.C. 20515

Dear Walter:

This is to notify you that, under the provisions of Section 5 of Public Law 98-557, I plan to transfer $10.4 million from the Coast Guard's "Acquisition, Construction and Improvements" Appropriation to its "Operating Expenses" Appropriation.

I have determined that the transfer of these funds is necessary in the national interest. The funds will be used to partially restore operating funds for essential maintenance and support of Coast Guard cutters, aircraft, boat stations, and marine safety facilities, as well as necessary personnel training.

Sincerely,

Jim Burnley, Acting Secretary
for
Elizabeth Hanford Dole

April 16, 1986

The Honorable John C. Danforth
Chairman, Committee on Commerce,
Science and Transportation
United States Senate
Washington, D.C. 20510

Dear Jack:

This is to notify you that, under the provisions of Section 5 of Public Law 98-557, I plan to transfer $10.4 million from the Coast Guard's "Acquisition, Construction and Improvements" Appropriation to its "Operating Expenses" Appropriation.

I have determined that the transfer of these funds is necessary in the national interest. The funds will be used to partially restore operating funds for essential maintenance and support of Coast Guard cutters, aircraft, boat stations, and marine safety facilities, as well as necessary personnel training.

Sincerely,

Jim Burnley, Acting Secretary
for
Elizabeth Hanford Dole

SENATOR ANDREWS: According to the budget schedules, a higher percentage of the supplemental will be devoted to law enforcement than other operating activities. How was that determined?

ANSWER: The program funding distribution of the supplemental is based on historical costs of the representative type of units which would be laid up if the funding is not received.

SENATOR ANDREWS: Why is none of the supplemental intended for personnel compensation (object class)? What "other services" and "supplies and materials" are urgently necessary?

ANSWER: The FY 1986 budget estimates for personnel compensation contained in the FY 1987 President's budget request include total funding for personnel costs and corresponds with the full-time equivalent personnel levels requested. The object classes for other services and supplies and materials are offset by the amount needed in personnel costs. The funding concept used assumes that personnel costs must be fully funded and that reductions elsewhere must be taken. People must be paid and the cost must be funded. When this happens, other essential programs, such as maintenance, repair, contractual services, training, spare parts, inventories, ordnance supplies, and so forth must be delayed. It is for these reasons that the supplemental focuses on the need for the funding of training, maintenance, and supplies and materials and does not provide funding for personnel costs.

SENATOR ANDREWS: If estimated operating expense obligations for the year are $1,617,539,000, why provide a supplemental which will achieve an obligation total of $1,632,539,000?

ANSWER: The $35,500,000 requested will increase total direct obligations from $1,597,039,000 to $1,632,539,000 (line 99.0, Object Classification Schedule) and net obligations incurred from $1,582,039,000 to $1,617,539,000 (line 71.00, Program and Financing Schedule). The $15,000,000 difference between direct obligations and net obligations appears on line 13.00 of the Program and Financing Schedule and reflects the budgetary treatment of funds transferred from the Boat Safety Account.

SENATOR ANDREWS: Why should fourth quarter obligations exceed the first quarter by $29,367,000?

ANSWER: At the beginning of FY 1986 the Coast Guard was operating under short term continuing resolutions and facing a possible $230 million reduction as well as Gramm-Rudman-Hollings reductions. A "slow down/squeeze down" policy was initiated that gave general guidance to "spend not one more penny you don't absolutely have to spend to avoid interrupting truly essential service to the public." The effect of this policy was to constrain obligations in both the first and second quarters of this fiscal year severely. However, that level of obligations cannot be sustained a full year without laying up vessels or other facilities. The supplemental request will provide additional funding required in the third and fourth quarters. Since we are already in the third quarter most of the funding requested will impact fourth quarter obligations.

SENATOR ANDREWS: Why is an almost $70 million increase requested for "Increased basic operational capabilities", when the FY 1986 Supplemental "shortfall" is only $35.5 million?

ANSWER: The Supplemental request did not represent a "shortfall" of only $35.5 million. The "shortfall" for FY 1986 is $142 million. The Coast Guard has determined that it cannot sustain current operations unless it receives an additional $45.9 million for Operating Expenses in FY 1986. $10.4 million will be transferred internally from the Acquisition, Construction, and Improvements (AC&I) Appropriation and $35.5 million in Supplemental funding has been requested. This is a short-term fix to "get through" the remainder of FY 1986 and bridge the gap without major closures. For FY 1987, $70 million is needed to sustain these operations for the full year.

OFFICE OF ACQUISITION

SENATOR ANDREWS: The budget requests $835,000 to establish an Office of Acquisition. How was that level and the 19 associated positions determined?

ANSWER: The $835,000 requested represents both salary costs for the additional 19 civilian personnel and office administration expenses that are anticipated. Approximately $250,000 is needed for administration expenses with the remainder required for salaries. The administration expenses are based on the size of the office using historical data from offices performing comparable tasks. In determining the number of additional personnel needed, the functions to be performed by the new acquisition office were established. Functions that were already being performed were reorganized and consolidated into the new office. The request for 19 positions represents the initial and minimum additional staffing necessary to perform those critical functions which could not be performed due to overall insufficient staffing levels after internal reorganization.

SENATOR ANDREWS: The future equipment purchases used to justify this office include at least two items which may be follow-ons to Navy procurements: patrol boats, and medium range helicopters. If these programs are so procured, why would it still be necessary to spend $835,000 for a new acquisition office?

ANSWER: The Navy will procure the Medium Range Helicopters for Coast Guard as a part of their competitive procurement for a Special Warfare/Combat Search and Rescue Helicopter. However, current plans envision the Coast Guard procuring the Patrol Boats. In addition, there are currently seven other major systems programs in various stages of development being managed by the Office of Acquisition. The performance of functions not adequately performed in the past, such as acquisition planning and integrated logistics support, also accounts for the increased personnel and administrative costs associated with the new office whose objective is to improve the timeliness and effectiveness of the Coast Guard's overall major systems acquisition process.

ACQUISITION REFORM ACTIONS

SENATOR ANDREWS: What level of funding is needed to implement the Logistics Management Institute and internal Coast Guard Studies' recommendations?

ANSWER: At this time only preliminary funding estimates to implement the Logistics Management Institute (LMI) and the Coast Guard Acquisition Process Study (CGAPS) recommendations are available. The incremental start up cost to establish an Office of Acquisition was over $750,000 in fiscal year 1986. Most of these one-time costs are associated with hardware and support requirements. Increased funding for personnel is minimal in fiscal year 1986 since personnel resources were provided by re-ordering our priorities. An additional 19 new full time positions are required in fiscal year 1987 to provide for the initial staffing of the Office of Acquisition. Recurring personnel costs for these 19 new positions is estimated at $581,000 and an additional $254,000 is necessary for recurring operating funds for the new office. Additionally, the need for support service contracts in areas where it is not economical to establish a fully independent capability will be examined. Firm requirements will not be known until the Office of Acquisition is fully staffed and fully operating sometime during 1987.

SENATOR ANDREWS: Which of these recommendations is considered by Coast Guard to be the highest priority?

ANSWER: The Coast Guard Acquisition Process Study indentified 38 recommendations for improving the acquisition process. The Logistics Management Institute identified 5 additional recommendations. All 43 recommendations are receiving management attention and are in various stages of implementation. The recommendations have not been prioritized.

SENATOR ANDREWS: What actions are being taken to address these "highest priority" recommendations? What resources are required for or have been devoted to these actions?

ANSWER: All recommendations have been assigned to a responsible activity within the Office of Acquisition. Milestones have been established for the accomplishment of each recommendation and progress is being monitored. At this time, existing resources within the Office are being used to accomplish these actions. As additional resources become necessary to assure successful implementation of the recommendations, we will assess the need and determine how best to fulfill it.

SENATOR ANDREWS: What is being done to centralize procurement oversight authority and improve oversight of Coast Guard's buying activities both at Headquarters and in the field?

ANSWER: The Coast Guard has reorganized its procurement functions at Headquarters to provide for a separate, autonomous oversight authority which is responsible for supervising the activities of all Coast Guard procurement offices. In addition to providing overall policy direction and day-to-day field liaison, this new organization also provides on-site compliance evaluations through regularly scheduled Acquisition Management Reviews.

SENATOR ANDREWS: What is Coast Guard doing to improve its training programs for both civilian and military procurement personnel?

ANSWER: Two quotas in the Acquisition and Contract Management program at the Naval Postgraduate School, Monterey, have been obtained per year for Coast Guard officers entering the procurement field. A formal training program which standardizes necessary professional qualifications for contracting authority levels is now in place. Information is being received from field activities necessary to centrally manage this program. Requested assistance has been received from the Air Force Institute of Technology to hold on-site training in courses found most needed to improve authority levels. In Headquarters, individual development plans which identify necessary training have been developed for all procurement personnel. Since December 1985, 51 Coast Guard personnel have taken advantage of attending procurement courses sponsored by the Department of Transportation/ Environmental Protection Agency cooperative training program. The Coast Guard, in conjunction with the Department of Transportation, is also exploring the feasibility of establishing an acquisition intern program.

SENATOR ANDREWS: What has Coast Guard done to ensure that its acquisition planning is integrated with the budget process and sufficiently addresses all critical elements, such as integrated logistic support?

ANSWER: The Coast Guard is working closely with the Office of the Secretary of Transportation to streamline the acquisition planning process to better match the budget process. One expected major improvement will result from acquisition strategy being geared to identifying budgetary requirements as early as possible. A critical element of the acquisition strategy is integrated logistics support planning.

SENATOR ANDREWS: What actions are being taken to improve timeliness of the entire acquisition process?

ANSWER: The intent of both the Logistics Management Institute study and the Coast Guard Acquisition Process study was to improve timeliness of the acquisition process. Forty-three recommendations resulted from these two studies. These recommendations are being implemented with modifications, where appropriate.

SENATOR ANDREWS: What actions has OST taken to improve timeliness?

ANSWER: Ten of the 38 recommendations proposed by the Acquisition Process Study require OST involvement. Three of the ten have been completed and the remaining seven are in-process. Improved timeliness is a product to be gained from these recommendations. Coast Guard personnel from the Office of Acquisition meet weekly with the Deputy Assistant Secretary (Administration) to monitor progress on the recommendations still requiring implementation.

OPERATING EXPENSES, GENERAL

SENATOR ANDREWS: A FY 1987 inflation increase of $20,252,000 is requested for operating expenses (p. 44). Why is this 4.2% characterized as the standard rate when the President's budget CPI is 3.5% for 1986 (1st quarter FY 1987), and 4.1% for calendar 1987?

ANSWER: At the time the Coast Guard budget was being prepared OMB's inflation planning factor for the FY 1987 budget was 4.2%. The inflation planning estimate was subsequently revised downward to 4.1%. The original 4.2% applied to the non-pay portion of Coast Guard's Operating Expenses Appropriation translates into an increase of $35,024,000. However, the net increase requested is for $20,252,000, which, in effect, represents an increase of only 2.3%.

SENATOR ANDREWS: What is your more realistic inflation requirement given the drop in oil prices (3/31 Traffic World . Nov. 1985 $1.33/gal. March 24 = $1.02/gallon of diesel fuel)?

ANSWER: The Coast Guard does not calculate its own inflation requirement, but uses an OMB developed rate. OMB's initial estimate for preparation of the FY 1987 budget was 4.2%. However, the Coast Guard did not use that estimate but instead requested a cost of living (COL) increase of only 2.3%. Although fuel makes up 8% of non-pay items in our Operating Expenses Appropriation, fuel price decreases (experienced or forecast) are not sufficient to require adjustment to our already reduced COL request.

SENATOR ANDREWS: The President of AMTRAK testified last week that AMTRAK fuel savings of 17 cents a gallon are now being realized. What is the Coast Guard paying for fuel, and how does that compare to the planning estimates used for the budget request?

ANSWER: The Coast Guard pays various prices for fuel worldwide. These prices are dependent upon such factors as geographic location and source, whether commercial or Defense Fuel Supply Stock. It is estimated that the Coast Guard will spend nearly $79 million for fuel in fiscal year 1986. In the budget request the Coast Guard did not use OMB's initial inflation estimate of 4.2 percent, but instead used a lower rate of 2.3 percent. With fuel making up only 8 percent of the non-pay items in the Operating Expenses Appropriation, any fuel price decreases (experienced or forecasted) have not been sufficient to require any adjustment to the Coast Guard's already reduced cost-of-living estimates used for budget planning.

SENATOR ANDREWS: Please explain what appears to be increased FY 1985 and 1986 spending for law enforcement and decreases for search and rescue, marine safety, and environment protection programs within "Operating Expenses", comparing last year's budget with this year's.

ANSWER: The Coast Guard is multi-mission in its responsibilities. In any given year actual expenditures vary among programs. The Coast Guard cannot predict where the next major response may be needed, whether a hurricane recovery, a Challenger disaster, a refugee situation, an oil spill, or a major drug interdiction operation. Therefore, budget estimates are prepared based on actual performance hours expended in mission areas in prior years as well as the costs associated with those operations. As the actual performance hours or costs associated with each activity change, the estimates are updated. The estimates for FY 1986 in the FY 1986 budget were based upon the detailed analysis actual experience in 1983 (because the FY 1986 Budget was compiled during 1984). As this actual program experience changed in 1984, the FY 1986 estimates in the FY 1987 budget request were also adjusted. The resulting changes reflect that increasing resources have been expended in law enforcement, especially drug enforcement.

OPERATING EXPENSES, DOD

SENATOR ANDREWS: The FY 1986 Defense Appropriations contained $100 million for Coast Guard "Military Readiness". Since the original FY 1986 budget request totalled $75 million, how is the entire amount being spent?

ANSWER: Last year's FY 1985 defense readiness estimate was based on FY 1983 data. Updated information based on FY 1984 program performance together with cost of living increases, is the basis of the estimates in the FY 1987 budget. All of this money, $95,100,000 after adjustment for Gramm-Rudman-Hollings (G-R-H) will go to the defense readiness program. Our original FY 1986 budget estimate of $75 million was based on FY 1983 program performance data. Using updated information, based on FY 1984 performance, we have increased our estimates. It is now projected that $100 million will be spent on the defense readiness program ($95.1 million after G-R-H) in FY 1986. These new projections are reflected in our FY 1987 budget request.

SENATOR ANDREWS: Why are FY 1986 Navy Fleet Cutter Days reduced 15% from the performance data shown last year (House Vol. 1, Page 29)? Why are there no more FY 1986 exercises being conducted with the funding augmentation (justification page 29)?

ANSWER: Review of actual hours achieved in FY 1985 showed the FY 1986 estimate to be too high and it was lowered accordingly. However, estimated cutter days for FY 1986 represent an increase of 30% over actual cutter days in FY 1985. The augmentation funding provided from DOD's budget has allowed the Coast Guard to maintain its present level of participation in defense exercises and meet its other defense readiness requirements while still being able to meet operational commitments which were impacted by the reductions from the Gramm-Rudman-Hollings Act.

SENATOR ANDREWS: Are some other Operating Expense activities being funded from the Navy Appropriations such as port security? Are any other account items receiving support? If so, which ones and in what amounts?

ANSWER: In FY 1986 two program areas other than "defense readiness" are being funded from Navy Appropriations: $15 million for drug law enforcement detachments in the "law enforcement" program and $10.7 million for polar ice breaking in the "ice operations" program. In FY 1987, the latter returns to Coast Guard funding.

OPERATING EXPENSES - SEARCH AND RESCUE

SENATOR ANDREWS: How is it that this budget's actual and estimated performance data for Search and Rescue significantly exceeds the data found in last year's justification, despite 12% less spent in FY 1985 and 11% in FY 1986?

ANSWER: Between 1980 and 1984 SAR activity gradually declined while during the same period requirements for law enforcement dramatically increased. The use of resources, particularly those with higher operating costs such as cutters and C130 aircraft, were reallocated to meet these changing program priorities. In 1985 SAR activity increased by 7%. This exceeded the modest SAR activity growth estimated in last year's performance data. Collection of budget data, however, lags performance data, and changing use of resources is not immediately reflected. If SAR activity continues to increase, future budget data will show increases in the portion of the budget allocated to SAR.

MILITARY PERSONNEL LEVELS

SENATOR ANDREWS: The Senate approved an amendment to HR 3244 the FY 1986 Transportation Appropriations Bill, setting a military position level of 39,150 and workyears (full-time equivalents) of 38,900. (This amendment was dropped in conference because of joint DOD/DOT funding.) Had that provision become law, then the 4.3% sequester theoretically would bring FY 1986 workyears down to 37,227, to match reduced funding. How, then, will the Coast Guard maintain a 39,200 level this year?

ANSWER: Because of funding constraints the Coast Guard's actual FY 1986 full time equivalent for military billets is estimated to be only 38,105.

SENATOR ANDREWS: In FY 1987 the requested workyear level is reduced to 38,541. Did the Coast Guard request a steady 38,900 level of OMB? How much of the FY 1987 reduction is associated with A-76, and how much other causes? What is the specific operational impact of a 648 workyear cut in FY 1987?

ANSWER: The Department of Transportation requested 38,902 military FTE for the Coast Guard from OMB.
The President's budget for the Coast Guard includes a reduction of 161 military FTE attributable to A-76. Other major reductions. include: the annualization of FY86 management savings (-435), decommissioning of cutters as they are replaced by newer vessels (-122), and FY87 improved productivity initiatives (-246). The referenced 648 workyear cut is the net of a number of different increases and decreases in the budget request. Because many of the decreases are associated with productivity improvements, there is no reduction in operational capabilities as a result of these changes.

SENATOR ANDREWS: The Continuing Resolution provided that $789,800,000 of Operating Expenses was to be available for military personnel compensation and benefits. What will be the actual amount?

ANSWER: Actual fiscal year 1986 Operating Expenses for military personnel compensation and benefits are estimated to be $811,252,677 (including the fiscal year 1986 payraise) or $789,846,919 (not including the payraise).

OPERATING EXPENSES FROM BOAT SAFETY

SENATOR ANDREWS: Why do FY 1986 marine safety expenditures (shown on page 22) decrease over 10% from what was requested last year? Why should trust fund support double in FY 1987 when the program level increases only 2% from the FY 1986 level?

ANSWER: Changes in the marine safety estimates result from changes in Coast Guard operations in the year (FY 1984) on which the estimates are based and on funding changes presented in the budget. Trust fund transfers are made to the Operating Expenses account rather than the single program marine safety. Other programs, including search and rescue, aids to navigation, and law enforcement, provide services to the recreational boater.

SENATOR ANDREWS: Provide a status report on facility implementing regulations required by the FY 86 conference report.

ANSWER: Administrative guidelines for the National Recreational Boating Safety Financial Assistance Program are published in a Coast Guard Manual Instruction which is provided to each State. This State Guide issued in January 1985 includes guidelines for acquiring, constructing and repairing public access sites. Use of funds for these purposes, however, was restricted in accordance with direction in Appropriations Acts. To implement the conferees' direction, agreements included with fiscal year 1986 State applications have been amended to provide specific information on how funds may be used for public access programs.

AQUATIC RESOURCES TRUST FUND

SENATOR ANDREWS: When will legislation be transmitted to double the amount of operating expense support from the Boat Safety Account?

ANSWER: Proposed legislation to reallocate the distribution of the Boat Safety Account was transmitted to the President of the Senate and the Speaker of the House of Representatives on March 13, 1986. The provision is a part of the Administration's proposed bill to authorize appropriations for the Coast Guard for fiscal year 1987.

SENATOR ANDREWS: The budget schedule (p. 200) estimates that FY1986 collections from import duties on tackle and yachts will triple from last year's estimate of $20 million. Why? Why will sport fishing equipment excise tax increase in FY1986 from $38 million to $70 million?

ANSWER: The Aquatic Resources Trust Fund actual collections and estimates are provided by the U.S. Department of Treasury, Office of Tax Analysis. Their original estimate of import duties on tackle and yachts for FY1985 was too low. The $60 million in FY1986 column is a Department of Treasury adjustment provided to make up for the low estimate in FY1985. Import duties on tackle and yachts should average approximately $40 million per year.

The excise tax on sport fishing equipment is a new tax law with it's first full year for collections in FY1986. The difference in taxes collected reflects the shift from a partial-year basis in FY1985 to a full year basis in FY1986.

SENATOR ANDREWS: How was the calculation made on the $122 million, and $161 million to be transferred to the Sport Fish Restoration account in fiscal years 1986 and 1987, respectively?

ANSWER: Title X of the Deficit Reduction Act of 1984 established the Aquatic Resources Trust Fund. Section 1016 provides that "excess funds" from collections shall be transferred by the Secretary from the Highway Trust Fund to the United States Fish and Wildlife Service, Department of Interior, Sport Fish Restoration account. Therefore, by law, the unappropriated balance left over at the end of the year is transferred to the Sport Fish Restoration account, i.e. the amount of $127.6 million unappropriated balance, end of FY1985 will eventually be transferred to the Department of Interior, Fish Restoration Account. At the beginning of FY1986, the Department of Interior did receive $122.2 million of the above amount. The balance of the "excess", if any, will be transferred when a final accounting of the Trust Fund for FY 1985 is available.

PORT SECURITY

SENATOR ANDREWS: If an additional $125 million is authorized, what specific offsets will be taken by the Coast Guard.

ANSWER: The Coast Guard is currently analyzing what its requirements will be under the proposed legislation. Any Coast Guard requirements will be considered in the Administration's review of the issue.

SENATOR ANDREWS: How much is the Coast Guard spending in FY 1986 for port, harbor and coastal facility security? What is requested for FY 1987? Provide details for the record. Also comment on Sections 905 and 907 of H.R. 4151.

ANSWER: The FY 1986 budget for the Port and Environmental Safety (PES) program is $59,844,000 and is included in the total Marine Environmental Protection (MEP) budget of $112,541,000. The FY 1987 PES program budget is $63,094,000 which is included in the total MEP budget of $114,142,000. The PES program consists of a number of different elements including port security, port safety, and pollution prevention efforts in U.S. ports and waterways. Unfortunately, our present accounting system does not permit us to break out that part of the program's budget which goes to port, harbor, and coastal facility security.

H.R. 4151 will require the expenditure of considerable resources in the assessment of foreign seaports, reports to Congress, and provision of anti-terrorism assistance. The reporting requirements of the bill are onerous. As a minimum, the reporting requirements of the various sections should be consolidated. If possible, perhaps Title IX reporting could be incorporated into a single report which may be required of the Executive elsewhere in the bill.

We do not object to Sections 905 and 907 of H.R. 4151 but submit the following comments. In regard to Section 905 of H.R. 4151, if the report required by this section is not consolidated with the other reporting requirements, as recommended, the report should be submitted annually instead of semiannually. Section 907 requires the Secretary of Transportation to develop and implement a plan for assessing the effectiveness of security at high-risk foreign ports. While the number of ports at which assessments would be required would be far less than under other pending legislation (e.g., H.R. 3734 and H.R. 4176), it still will place a burden on the Department's resources. Moreover, these assessments would necessitate that new diplomatic procedures be worked out with foreign authorities. This situation would be hard to defend where no U.S. vessels are involved. On page 81 of H.R. 4151, in lines 13-18, there is an unintended implication that the only ports which pose a high risk of terrorist action are those not under the de facto control of a government. Because the sentence requiring this special determination does not make clear the meaning of the distinction, we recommend that it be deleted.

MARINE ENVIRONMENTAL PROTECTION

SENATOR ANDREWS: Explain the 5-fold increase this fiscal year in port safety: vessels boarded (pg. 27) compared to last year's performance data. Why, with environmental protection performance data remaining relatively constant are FY 1987 increases requested? What explains the 11% decrease in program costs shown for FY 1985 and 1986 this year from last year's estimates? Is this activity of lower priority then law enforcement which shows the opposite trend for FY 1985 and 1986?

ANSWER: The FY 1984 performance data for the number of cargo vessels and barges boarded was initially in error. The corrected data presented in Congressional hearing testimony last year, is as follows:

Port safety Cargo vessels/barges boarded (FY 1986 budget data):

1984 actual	1985 estimate	1986 estimate
14,136	14,306	14,478

The actual number of cargo vessels and barges boarded in FY 1985 was 12,700. It is estimated that the same number will be boarded in FY 1987.

Program cost estimates in the budget request are allocated based on prior year experiences. As program performance and costs change, adjustments are made in subsequent budget requests. Such changes have occurred in the marine environmental protection (MEP) program. While some program workloads have remained constant, in other areas enforcement methods have been shifted to improve productivity. In the management of the port safety program, cargo vessels and barges are selected for boarding based on information derived from the Marine Safety Information System (MSIS), rather than boarding each vessel in each port. In addition, routine patrolling and aircraft overflights in the marine environmental response program have been replaced by selective patrols and enforcement. The result has been the same program effectiveness with fewer resources expended. Productivity increases have been necessary because the requests since FY 1983 have essentially been no-growth budgets in constant dollar terms. Consequently, new program efforts or the follow-on operation of many prior-year capital investments have had to be funded by the reallocation of existing resources. The decrease in the MEP program is but one example of the attempt to do more with the same resource level. It is not so much a reflection of relative program priorities as it is a revelation of where the Coast Guard has been able to make cost-effective, productivity improvements.

CHALLENGER

SENATOR ANDREWS: How much is Coast Guard routinely reimbursed by NASA for ordinary shuttle launch security?

ANSWER: Assistance provided to NASA in support of the Space Transportation System is on a reimbursable basis for direct incremental costs. Reimbursed costs are approximately $30,000 per launch, which covers per diem and travel for Reservists, Auxiliary costs, fuel, and wear and tear to Coast Guard property directly as a result of the Shuttle operation. Total reimbursement was approximately $250,000 last year.

SENATOR ANDREWS: What was spent by the Coast Guard to aid NASA's recovery of Challenger debris? How much will NASA reimburse the Coast Guard for ship and cutter time in January and February? If not, why not?

ANSWER: Coast Guard estimated costs for recovery of debris from the Space Shuttle Challenger tragedy are based on the standard rates used to compute reimbursable charges.

The estimated cost is:

Cutters:	$1,148,558
Aircraft:	958,236
Small boats:	135,648
Misc:	60,000
Total Costs	$2,302,442

NASA will not be asked to reimburse the Coast Guard for costs associated with Challenger SAR or subsequent recovery operations. This decision was based on the rationale that the recovery operation is consistent with Coast Guard missions.

SENATOR ANDREWS: What Coast Guard missions were delayed as a result of equipment being priorized for shuttle disaster work?

ANSWER: The major impact on Coast Guard missions resulting from the shuttle disaster work was cancellation of some law enforcement patrols, delays in aids-to-navigation work schedule, and loss of in-port maintenance periods for several cutters.

USER FEES

SENATOR ANDREWS: The Coast Guard supports H. R. 1936, introduced by Mr. Conte last year, to raise user fees. Briefly outline that proposal. Will increased user fees be used to offset Coast Guard costs?

ANSWER: User fees would be collected to recover a portion of the operating expenses incurred by the Coast Guard to provide services that primarily benefit the recipients of those services.

Direct fees would be charged for services such as vessel documentation, certifications and inspections; terminal or offshore facility inspections and certificates; licensing and certificating individuals and issuance of merchant mariners' documents; regatta permits and patrols; and permits for private aids.

Indirect fees would partially recover operating expenses incurred to perform search and rescue, aids to navigation, and other services from operators or owners of recreational boats, fishing vessels, and commercial vessels engaged in international or coastwise trade or operating in or on inland waters subject to the jurisdiction of the United States.

None of the costs incurred to perform the Defense Operations, Enforcement of Laws and Treaties, Polar Ice Operations or Waterways Management Programs would be recovered through user fees since the benefits of these services are widely distributed among the public and should be financed entirely from general taxes.

It is anticipated that the amount collected would be $238 million in fiscal year 1987 and $476 million in fiscal year 1988. Fee schedules would be established in consultation with concerned parties during the Notice of Proposed Rule Making process.

Fees can be collected through the employment of Federal, State or local agencies, or private enterprises. It is anticipated that a variety of collection mechanisms may be employed with the objective of obtaining the best balance among equity, efficiency and administrative simplicity, and to minimize the cost and administrative burden on those who would pay the fees.

Revenues collected would be deposited as proprietary receipts ascribed to the Coast Guard in the General Fund of the Treasury. Proprietary receipts are collections from the public that are receipt accounts of the general fund, special funds or trust funds as a result of the Government's business-type or market oriented activities. These collections would not be counted as budget receipts, and are offset against total budget authority and outlays by agency and by function.

ACQUISITION, CONSTRUCTION AND IMPROVEMENTS, GENERAL

SENATOR ANDREWS: FY 1986 Acquisition, Construction and Improvement obligations are now estimated to be $430 million, a 14% reduction from last year's estimate. Admittedly, appropriations were decreased in the Continuing Resolution, at the insistence of OMB, but the obligation of past-years' appropriations does not appear to be improving. Please explain.

ANSWER: Estimated obligations have been reduced 14% from last year's estimate. A major reason for this reduction was the 28% decrease in appropriations received. As to the obligation rate of prior year carryover, this has been improving since FY 1984. In FY 1984 55% of prior year carryover was obligated; in FY 1985 65%; and FY 1986 obligations are projected to be 73%. Obligation rates for new funding is also increasing. In FY 1984 41% of new funding was obligated; 44% in FY 1985; and FY 1986 is projected at a higher level than FY 1985.

SENATOR ANDREWS: The Department has informed the subcommittee that as of February 1986, $463 million remained unobligated. What major projects will be obligated during the next six months to get to the $210 million balance shown in the budget?

ANSWER: The February unobligated balance of $463 million has been further reduced during March by $8.5 million. We expect to make additional obligations totalling $244.5 million during the next six months to bring us to $210 million. Projects to be obligated are:

Project	Amount
378' Fleet Renovation and Modernization (FRAM)	$19,200,000
210' Midlife Maintenance Availability (MMA)	27,000,000
WLIC	2,500,000
205' Safety and Supportability	2,000,000
High Speed Boats	1,200,000
Short Range Recovery Aircraft (SRR)	1,900,000
Medium Range Search (MRS) Aircraft Spares	11,600,000
HC-130 Procurement	4,800,000

Project	Amount
Forward Looking Airborne Radar (FLAR)	$27,400,000
AIREYE	5,900,000
Public Family Quarters	11,200,000
Kodiak Health Facility	6,100,000
West Coast 270' Shore Support	5,500,000
Station Short Beach	2,400,000
Demopolis AL - Aids to Navigation Facility(ANFAC)	1,900,000
Loran Station Port Clarence	3,000,000
Peoria (ANFAC)	1,600,000
Loran Towers Replacement	1,000,000
Support Center Boston Phase III	6,900,000
Base Galveston	1,000,000
Base Charleston	3,700,000
Marine Safety Office (MSO) Delaware	9,900,000
Base Miami	1,400,000
Los Angeles Air Station	2,500,000
Minor AC&I Construction Projects	4,000,000
Aids to Navigation (AtoN)	3,300,000
Standard Terminal Replacement	1,900,000
Command, Display and Control (COMDAC) Facility and Software	7,000,000
Vessel Electronics	4,500,000
Vessel Traffic Service (VTS) New Orleans	6,300,000
Agile Racons	3,000,000
Secure Communications	2,100,000
Aerostat Procurement	20,400,000
AC&I Admin (salaries)	10,800,000
Miscellaneous small project amounts	19,600,000
Total	$244,500,000

C-130

SENATOR ANDREWS: Does the President's FY 1987 Operating Expense Budget request contain sufficient resources to support the 29 aircraft C-130 fleet? If not, what is supportable? What is the annual operating cost for each additional C-130?

ANSWER: No, the FY 1987 budget does not provide funding for a 29 aircraft C-130 fleet. The FY 1987 budget request includes funding support for the 26th C-130, which was funded in FY 1985 Supplemental appropriation and will be delivered for operation in FY 1987. Since three subsequent C-130 aircraft were just funded in 1986 in Navy's Coastal Defense Augmentation account, they will not be delivered for operation until FY 1988, making it unnecessary to request operating funds for them yet.
Annual operating costs for a C-130 are approximately $2,420,000, of which $808,000 is for personnel costs and $1,612,000 is for operation and maintenance.

SENATOR ANDREWS: Where will the 3 additional C-130's funded by DOD be deployed?

ANSWER: Siting of the 3 additional C-130's is currently under study. A final decision is expected by July 1986.

FASTBOATS

SENATOR ANDREWS: Part of the FY 1985 drug interdiction supplemental initiative was for 8 high-speed boats. The FY 1987 support cost is $2.26 million. What type vessel was procured? What is the delivery schedule and patrol area? Will they be used for any other Coast Guard mission? What is the crew complement? What will annual maintenance costs be? Why is contract maintenance contemplated (see pg. 49)?

ANSWER: The contract for a 44 foot deep "V" hull, direct drive, diesel powered boat should be finalized by 31 May 1986. The vessels will be delivered in Miami, FL by October 1986. They will operate out of Miami Beach, FL, Islamorada, FL and Ft Lauderdale, FL and in the Florida Straits area. They are not planned to be used for any mission other than law enforcement. The boats will be operated by a crew of 4. Expected maintenance costs are estimated to be $320,000 annually. The fast boats will represent only a small portion of Coast Guard boat resources and will have some unique equipment and maintenance requirements. Those equipments which are common to other Coast Guard boats in the area will be maintained by Coast Guard personnel. Maintenance for unique equipment will be more cost-effective by contract.

FLEET RENOVATION AND MODERNIZATION (FRAM)

SENATOR ANDREWS: Provide a summary of each past year's FRAM obligations. Requirements in FY 1986 and 1987. What contractual obligation is the $123 million request tied to?

ANSWER: The FY 1987 request for $123 million is required to fund ships six, seven and eight of the 12 ship program. The FRAM multi-year contracts specify notification to the contractors to proceed with one East Coast FRAM and two West Coast FRAMs during FY 1987.

SUMMARY OF OBLIGATIONS
($Million)
FISCAL YEAR

1982	1983	1984	1985	1986	1987
0.25	0.24	2.61	121.50	93.00*	138.00*

* Estimated Obligations

SENATOR ANDREWS: Did each of the first two ships enter the East and West Coast Yards last October? If not, why not?

ANSWER: The first two ships entered their Yards on schedule in October 1985.

SENATOR ANDREWS: Provide an update to the chart found on page 874 of last year's Senate hearings, and an explanation for any slippage.

ANSWER: The only slippage currently scheduled is a one month delay in completion of HAMILTON. This delay is due to the command, control and communication system modification made to the contract after award. The Coast Guard estimates five to six months additional delay in completion of HAMILTON may be necessary due to unanticipated damage found upon removal and inspection of the main propulsion reduction gears. The specific period of delay remains subject to negotiation with the contractor. A schedule adjustment will be made when firm delivery dates are established. The current shipyard entry and completion schedule is:

CUTTER	COAST	ENTRY	COMPLETION
Hamilton	EAST	Oct 85	May 87
Dallas	EAST	Sep 86	Jan 88
Chase	EAST	Jul 87	Sep 88
Gallatin	EAST	Apr 88	Apr 89
Mellon	WEST	Oct 85	Apr 87
Sherman	WEST	May 86	Sep 87
Munro	WEST	Dec 86	Feb 88
Rush	WEST	Jul 87	Jul 88
Boutwell	WEST	Dec 87	Dec 88
Morgenthau	WEST	May 88	May 89
Jarvis	WEST	Oct 88	Oct 89
Midgett	WEST	Mar 89	Mar 90

COLD BAY, ALASKA

SENATOR ANDREWS: What is the status of contract award for engineering design of the Cold Bay, Alaska Air Station, expected to be awarded by September 1, 1985? Will this be completed by May 1, 1986, as expected last year? If not, why not?

ANSWER: The engineering contract for planning, conceptual design, and preliminary geotechnical investigation was awarded in October, 1985. The final report is expected in September, 1986. The delay resulted from the need to do additional review and evaluation related to logistics required to support this remote facility.

SENATOR ANDREWS: What is the latest construction cost estimate, and annual operating costs? (Explain any differences from last year's testimony.)

ANSWER: The ongoing preliminary architectural and engineering design effort for an Aleutian air facility at Cold Bay will include the determination of more refined cost estimates. This effort is expected to be completed during the fourth quarter of fiscal year 1986. Until it is completed, our best estimate for facility cost remains at approximately $100 million, excluding aircraft. Our best estimate of recurring annual costs remains at $10 million.

270' MEDIUM ENDURANCE CUTTERS

SENATOR ANDREWS: Why did the last three A-Class 270' Medium Endurance Cutters operational dates slip about six months each?

ANSWER: The operational dates slipped for three reasons. First, the retrofit installation of equipment took longer to do because we also had to make structural modifications. Second, greater time for dockside repairs was required to prepare the ships for certifications and training. Third, contractual obligations for the Final Acceptance Trials and COMDAC testing, which were extra tasks, required that ship time be made available. Additionally, there were minor delays and disruptions due to hurricanes, search and rescue calls, law enforcement needs and contractor breaks at Christmas and New Years.

SENATOR ANDREWS: What FY 1986 operational savings will occur as a result?

ANSWER: No FY86 operational savings will occur as a result of the slippage in 270' medium endurance cutter deliveries. The same is true for FY87. The reason is that 270' WMECs are matched one for one as replacements for older cutters, which must be kept in service until the 270' WMECs are operational. Because of continued operations of these older cutters, which generally have higher maintenance costs and larger crews, 270' WMEC slippages result in a net expense, not savings, to the Coast Guard. Extension of the older cutters until the newer 270' WMEC's are operational is consistent with Senate Report #99-152, DOT and Related Agencies Appropriation Bill 1986, which directs this action.

SENATOR ANDREWS: Last year's supplementary data showed three additional vessels operational in FY 1987, for a total of nine. It now appears (p. 225) that two fewer ships will be operational in FY 1987. Exactly where in the 1987 Operating Expenses request is this slippage reflected? How much in training and cutter hours will be saved?

ANSWER: No FY86 operational savings will occur as a result of the slippage in 270' medium endurance cutter deliveries. The same is true for FY87. The reason is that 270' WMECs are matched one for one as replacements for older cutters, which must be kept in service until the 270' WMECs are operational. Because of continued operations of these older cutters, which generally have higher maintenance costs and larger crews, 270' WMEC slippages result in a net expense, not savings, to the Coast Guard. Extension of the older cutters until the newer 270' WMEC's are operational is consistent with Senate Report #99-152, DOT and Related Agencies Appropriation Bill 1986, which directs this action.

HU25A AIRCRAFT HOURS

SENATOR ANDREWS: Last year's estimate for FY 1986 HU25A aircraft hours was 27,000 hours. What has been flown to date and what are the revised estimates?

ANSWER: In the first quarter of fiscal year 1986 our HU-25A aircraft flew 4,811 hours. Revised projections indicate that HU-25A's will fly approximately 21,000 hours in fiscal year 1986. The hours flown and projections are lower due to the "slowdown/squeeze down" policy implemented to meet Gramm-Rudman-Hollings reductions, and to low yet improving aircraft availability pending completion of actions to correct engine maintenance and design deficiencies.

SENATOR ANDREWS: Last year the FY1985 estimate was revised downward to 23,400, from 27,000. What was the actual amount?

ANSWER: Thirty-four operational HU-25A aircraft flew 21,780 hours in fiscal year 1985.

POLAR ICEBREAKERS

SENATOR ANDREWS: What is the status of design work leading to acquisition of new Polar Class Icebreakers?

ANSWER: The Coast Guard is preparing design and construction plans for two new polar icebreakers. Existing "Off the Shelf" designs do not meet requirements. Replacement ships identical to the existing Polar Class would satisfy some of requirements, but the principal shortfall is in scientific capability. Conceptual Design was completed in September 1985. Preliminary Design is in progress and scheduled for completion in June 1986. The Contract Design will start at the end of Preliminary Design and is scheduled for completion in November 1987. Based on the present schedule, shipbuilding contract would be awarded as early as the fourth quarter fiscal year 1988. That contract includes Detail Design by the shipbuilder. First ship delivery is scheduled four years after contract award (1992) and the second ship follows by one year (1993).

SENATOR ANDREWS: What is the operational status of each icebreaker in the current fleet, including WESTWIND?

ANSWER: POLAR SEA is currently underway in the Western Arctic. GLACIER is returning from Antarctica. POLAR STAR is in home port undergoing maintenance and repair (M&R) and is scheduled to deploy in August 1986. NORTHWIND is also in home port undergoing M&R and is expected to deploy in June 1986. WESTWIND is undergoing a major M&R at the Coast Guard Yard in Baltimore, Maryland which is scheduled to be completed Spring 1987.

DEPARTMENT OF DEFENSE AUTHORIZATION

SENATOR ANDREWS: Has the $15 million in the FY 1986 DOD Authorization Act for additional Coast Guard personnel to be assigned to Naval vessels been transferred?

ANSWER: The $15 million for additional Coast Guard Tactical Law Enforcement Teams (TACLET's) aboard U. S. Naval vessels was transferred to the Coast Guard on 31 March 1986.

SENATOR ANDREWS: How many Coast Guard personnel are presently assigned to Navy ships?

ANSWER: No Coast Guard personnel are permanently assigned to Navy ships for drug law enforcement purposes. Instead, we seek to maximize our drug interdiction effectiveness by deploying Coast Guard law enforcement teams aboard Navy ships operating in areas known or suspected to be used by drug smugglers. We also deploy these teams on Navy ships transiting areas of smuggling activity. By deploying aboard Navy ships of opportunity, we are able to establish a more constant enforcement and deterrence presence in the areas of highest smuggling threat than we would by permanently assigning teams to Navy ships which might only occasionally operate in those areas. The number of Coast Guard persons vary from time to time depending upon the availability of Navy ships operating in or transiting through areas of law enforcement interest, the availability of Navy ships for special interdiction operations, and the number of teams we have available for deployment. For example, on April 16, 1986, there were only 5 persons deployed, but on January 20, 1986, there were 40 persons deployed aboard Navy ships.

SENATOR ANDREWS: How much funding is provided in the 1987 budget to continue this operation? Do you support continuation of this operation?

ANSWER: The Coast Guard's FY 1987 budget includes 500 reimbursable billets in anticipation of $15 million funding from the Navy to continue this program. The Coast Guard supports its continuation.

SENATOR ANDREWS: How many days of deployment time of Coast Guard law enforcement detachments on Navy ships will there be in FY 1986? What is your projection for FY 1987?

ANSWER: During Fiscal Year 1986, as of April 15, law enforcement detachments have been deployed a total of 535 days in Navy ships. Much of this deployment time was aboard Navy ships specifically dedicated to an intensive interdiction operation (Hat Trick II) early in the year. Because the number of team deployment days is dependent upon the availability of Navy ships operating in or transiting through areas of law enforcement interest, the availability of Navy ships for special interdiction operations, and the number of teams we have available for deployment, deployment projections are at best uncertain. However, we expect that we will surpass 750 deployment days in Fiscal Year 1986. Based upon the assumption that additional law enforcement teams will be phased in, that the same type of special operations will be conducted, and that the same number of Navy ships will be available for operations, we expect even more deployment days than that in Fiscal Year 1987.

AEROSTAT RADAR SYSTEMS

SENATOR ANDREWS: You stated before the House Transportation Appropriations Subcommittee that you had one leased AEROSTAT radar balloon in operation and that you were expecting delivery of two additional AEROSTAT radar systems under A-76 contracting in the next month or two. Have these systems been delivered? Are they in operation? How many hours daily?

ANSWER: The leased AEROSTAT that was in operation in February, 1986 crashed in March and the lease was terminated. Two additional aerostats are being produced by RCA and TCOM for the Coast Guard. Although they will be operated from commercially leased ships by a detachment of Coast Guard personnel, they are not directly associated with the A-76 process. Both systems are essentially completed; one has begun acceptance tests, the other will begin acceptance tests very soon. After acceptance, there will be a head-to-head evaluation to determine which contractor will be awarded options for follow-on systems.

SENATOR ANDREWS: How effective has Aerostat radar been in Coast Guard drug interdiction efforts?

ANSWER: The AEROSTAT radar system has been very effective in drug interdiction efforts. It provides a much larger area of radar coverage than regular ship radars, and therefore it can provide complete radar coverage of the Yucatan Channel or Windward Passage by a single vessel. Its target information processing computer permits the AEROSTAT to process the radar data and provide Coast Guard cutters with both target information and course information to intercept targets of interest. Thus the Coast Guard cutters can more effectively select vessels for boarding and conduct the actual boardings. As the latest example, on February 20, 1986, an AEROSTAT detected the Colombian fishing vessel PEPITO and provided information to the Coast Guard cutter CHASE and USS ELROD which led to the seizure of the PEPITO with 7,400 pounds of marijuana aboard.

SENATOR ANDREWS: What replacement effort, if any, followed the September 1985 destruction of an Aerostat during a storm in Kev West? How will such accidents be prevented in the future?

ANSWER: Following the September 17, 1985, accident to the second leased AEROSTAT, the contractor repaired the system and placed it back in operation on January 2, 1986. That lease has now expired. To attempt to avoid similar accidents in the future, the Coast Guard procured AEROSTATs will meet sturdier construction specifications and design criteria, which are expected to improve aerostat survivability in the harsh environment in which it will be operating.

SENATOR ANDREWS: How many leased Aerostats will be in operation during FY 1987? With delivery of 2 Coast Guard systems, should this mix be altered?

ANSWER: The Coast Guard does not anticipate operating any leased AEROSTATs during Fiscal Year 1987. The present contracts for Coast Guard AEROSTATs include options to acquire all the AEROSTATs that the Coast Guard will need. We do not know of any suitable AEROSTATs that would be available for lease during Fiscal Year 1987.

PERFORMANCE DATA

SENATOR ANDREWS: Why does your budget justification show an estimate on page 27 of 39,350 aircraft flight hours in 1986 for enforcement of laws and treaties, and an estimate on page 223 of 37,686 in 1986 for the same activities? Which is correct?

ANSWER: An incomplete detail sheet was used in preparing the table on page 223. The correct figure is 39,350 as shown on page 27.

SENATOR ANDREWS: If the estimate on page 27 is correct, please provide for the record the same breakdown as appears on page 223.

ANSWER: The information is as follows:

FY 1986 (estimate), Enforcement of Laws and Treaties (ELT)

Category	Employment Hours
Fish - Domestic	3,550
Fish - Foreign	5,400
Drugs	24,650
Other	5,750
Total ELT	39,350

SENATOR ANDREWS: Your budget justification (page 27) indicates 210,000 cutter operating hours in 1986 and 217,500 cutter operating hours in 1987 for general law enforcement. Please provide for the record a breakdown of cutter operating hours by type for 1986 and 1987 similar to the breakdown on page 223 of aircraft employment hours in the enforcement of laws and treaties.

ANSWER: Revised estimates of cutter employment hours listed by law enforcement category are as follows:

CUTTER EMPLOYMENT HOURS

	1985 actual	1986 estimate	1987 estimate
Enforcement of Laws & Treaties (ELT)			
Fish - Domestic	34,998	32,460	32,665
Fish - Foreign	32,453	27,780	27,420
Fisheries Total	67,451	60,240	60,085

Drugs........................	183,957	192,000	198,500
Other (primarily illegal immigration)..........	25,031	18,000	19,000
General ELT Total............	208,988	210,000	217,500
Total ELT....................	276,439	270,240	277,585

ALTERATION OF BRIDGES

SENATOR ANDREWS: This Subcommittee and the Commerce Committee worked closely with the Coast Guard last year to provide funding for the Burlington Northern Bridge over the Willamette River. $5.2 million was provided for the total bridge account in the Continuing Resolution. How much is being spend on this bridge in FY 1986? How was the determination reached to eliminate funding in FY 1987? What are the remaining costs for the Willamette bridge and how will they be funded?

ANSWER: There will be no monies expended on the Willamette bridge in FY 1986. This is because of delays in the bid opening due to the question of application of the Davis-Bacon Act to the construction project originally proposed by H.R. 2466. If it had been enacted, the provisions of the Davis-Bacon Act would have added approximately $1.4 million to tht cost of the project, necessitating a revised request for Invitation For Bid. Since the project will now be put out for bid in August/September 1986, previous appropriations will allow work to continue through FY 1987 without a FY 1987 funding request. Remaining costs for this bridge are estimated at $21.2 million, which will be requested in future budgets.

RDT&E FUNDING

SENATOR ANDREWS: Last year's budget justification estimated that the total direct research, development, test and evaluation (R,D,T,&E) program for 1985 would be $25 million. This year's budget justification indicates that actual 1985 direct obligations for R,D,T,&E amounted to less than $19 million. Please explain this large discrepancy between 1985 estimated and actual obligations.

ANSWER: The large variance had two primary causes:

1. Approval of the acquisition paper for the Patrol Boat (WPB) Acquisition/Replacement Program took longer than planned, and approximately $3.5 million of this project's funds were not obligated in FY 1985.

2. The procurement process has become increasingly difficult and time consuming to complete, resulting in the slippage of several contract awards to FY 1986.

SENATOR ANDREWS: In what research areas were there shortfalls from the 1985 research program that you anticipated at the time of last year's budget submission?

ANSWER: Other than a 10 percent reduction in our Command and Control project, which was taken to satisfy the Deficit Reduction Act, there were no shortfalls in project funding from amounts shown in the FY 1986 budget submission.

SENATOR ANDREWS: The program and financing table on page 138 of your budget justification does not reflect the 1986 Gramm-Rudman-Hollings sequestration. In what R,D,T,&E program areas were reductions made in 1986 to achieve these required cuts?

ANSWER: Since Gramm-Rudman-Hollings was an across-the-board cut, proportional reductions were taken in each program area, as shown on page 148 of the Justifications.

SENATOR ANDREWS: Do you intend to further utilize available unobligated balances from previous years in 1986 to offset Gramm-Rudman-Hollings reductions?

ANSWER: No.

SENATOR ANDREWS: Provide for the record an updated R.D.T.& E. Program and Financing Table that reflects the 1986 Gramm-Rudman-Hollings adjustments.

ANSWER: The updated Research, Development, Test, and Evaluation Program and Financing Table is furnished below:

RD1-GR
STANDARD FORM 300

DEPARTMENT OF TRANSPORTATION
COAST GUARD
RESEARCH, DEVELOPMENT, TEST, AND EVALUATION
Program and Financing (in thousands of dollars)

Identification code 69-0243-0-1-403	1985 actual	1986 estimate	1987 estimate
Program by activities:			
Direct program:			
1. Search and rescue.................	5,207	4,559	4,162
2. Aids to navigation................	2,959	4,589	4,189
3. Marine safety.....................	4,772	2,324	2,123
4. Marine environmental protection..	3,022	2,446	2,233
5. Enforcement of laws and treaties.	2,040	8,184	7,474
6. Ice operations....................	584	580	528
7. Defense readiness.................	374	1,415	1,291
Total direct program.............	18,958	24,097	22,000
Reimbursable program:	754	1,200	1,200
10.00 Total obligations................	19,712	25,297	23,200
Financing:			
11.00 Offsetting collection from Federal funds.....................	-753	-1,200	-1,200
17.00 Recovery of prior year obligations.......................	-450	...	...
21.40 Unobligated balance available, start of year....................	-4,389	-8,745	-4,745
22.40 Unobligated balance, net transfer	135	...	...
24.40 Unobligated balance available, end of year......................	8,745	4,745	3,245
40.00 Budget Authority (appropriation).	23,000	20,097	20,500

RD2-GR
STANDARD FORM 300

DEPARTMENT OF TRANSPORTATION
COAST GUARD
RESEARCH, DEVELOPMENT, TEST, AND EVALUATION
Program and Financing (in thousands of dollar

Identification code 69-0243-0-1-403	1985 estimate	1986 estimate	1987 estimate
Relation of obligations to outlays:			
71.00 Obligations incurred, net........	18,958	24,097	22,000
72.40 Obligated balance, start of year.	8,681	8,820	9,307
74.40 Obligated balance, end of year...	-8,820	-9,307	-10,120
78.00 Adjustments in unexpired accounts	-450	...	...
90.00 Outlays........................	18,369	23,610	21,187

RDT&E STAFFING

SENATOR ANDREWS: Both the House and Senate Reports accompanying the 1986 DOT Appropriations Bill specifically provide for 85 military and 110 civilian positions to administer the R,D,T,&E program. Why have you reduced 1986 staffing to 79 military and 104 civilian positions?

ANSWER: We eliminated 6 military and 6 civilian positions as part of a Coast Guard effort to reduce administrative overhead.

SENATOR ANDREWS: Was this the pre- or post-Gramm-Rudman-Hollings staffing level? Do you intend to make further 1986 staffing reductions to achieve Gramm-Rudman-Hollings cuts?

ANSWER: We have not reduced any RDT&E personnel as a result of Gramm-Rudman-Hollings cuts, nor do we expect to do so in FY 1986.

SENATOR ANDREWS: If these are post-sequestration staffing levels, why are you not proposing to resume prior staffing levels in 1987?

ANSWER: Since the requested funding level for FY 1987 is virtually the same as that appropriated for FY 1986, a constant staffing level is appropriate.

RDT&E UNOBLIGATED BALANCES

SENATOR ANDREWS: Last year's budget justification indicated that the unobligated balance of R,D,T,&E funding at the close of FY 1984 was $4,389,000. It further estimated that the unobligated balance at the close of 1985 would be $2,389,000. This year's justification indicates that the actual level was $8,745,000. Why did the unobligated balance increase by more than $4.3 million between 1984 and 1985?

ANSWER: There are two primary reasons for the increase in unobligated funds. First, approval of the acquisition paper for the Patrol Boat (WPB) Acquisition/Replacement Program took longer than planned, which added approximately $3.5 million to WPB carryover. The second reason is that the procurement process has become more complex, resulting in the delay of several contracts scheduled for award in FY 1985.

SENATOR ANDREWS: This is the third consecutive year that you have underestimated the unobligated balance of R,D,T,&E funds at the close of a fiscal year. Why are you unable to accurately estimate the annual R,D,T,&E program level?

ANSWER: In recent years we have attempted to explore new technologies for possible replacements for existing platforms. The WPB replacement acquisition is one such project. Instead of just replacing each existing boat with a multiple-capacity hull, we've tried to explore the possibility of a fleet mix of platforms, each with different individual capabilities. Risk-taking and uncertainty are inherent factors in such an effort. Combined with an increasingly complex and lengthy procurement process, they often result in obligations varying from the forecast. In such a small appropriation as RDT&E, this carryover of funds can cause significant percentage variations from estimated program plans.

SENATOR ANDREWS: Your budget justification estimates a 1986 post-sequester direct program level of $24,097,000 thereby reducing the unobligated balance to $4,745,000. Now that we are 6$^1/_2$ months into the fiscal year, is this still an accurate estimate?

ANSWER: Based on actions to date, we believe that our unobligated balance will be approximately $5 million.

SENATOR ANDREWS: How much has been obligated in FY 1986 to date?

ANSWER: As of 31 March 1986, approximately $7,375,000 had been obligated. An additional $2,913,000 has been committed and awaits obligation.

SENATOR ANDREWS: Provide for the record a schedule by date and amount of obligations for the remainder of FY 1986.

ANSWER: The following is an estimated schedule of planned obligations for the remainder of FY 1986:

April	$ 1,550,000
May	2,000,000
June	2,100,000
July	2,000,000
August	1,950,000
September	1,400,000
Total	$11,000,000

WPB CAPABILITY REPLACEMENT PROJECT

SENATOR ANDREWS: You indicated last year (page 889 of hearing record) that you expected over $3 million of funds committed but not formally obligated for the WPB Capability Replacement project to be carried over into FY 1986. How does this reconcile with last year's estimate that only $2,389,000 of R,D,T,&E funds would remain unobligated at the close of FY 1985?

ANSWER: Risk-taking and uncertainties are inherent factors in R,D,T,&E efforts. Combined with an increasingly complex and lengthy procurement process, plans often change from those forecast. The estimate was developed during the preparation of the President's Budget for FY 1986 in the December 1984-January 1985 timeframe. The response on page 889 of the hearing record was provided subsequent to the Subcommittee hearing on April 24, 1985.

SENATOR ANDREWS: You also indicated that a more than $3 million contract award for the WPB Capability Replacement project would be made in FY 1986. Has this contract been awarded? If not, when do you expect an award to occur?

ANSWER: The contract has not been awarded. The funds have been proposed as part of a no-cost supplemental appropriation to cover the Coast Guard's shortfall in Operating Expenses. If approved, the WPB Capability Replacement contract will be postponed to FY 1988.

SENATOR ANDREWS: You are requesting only $500,000 in FY 1987 for this project which supports the Coast Guard's efforts to replace the mission capabilities of aging patrol boat classes. Is this project winding down? Do you anticipate further funding requests for this activity?

ANSWER: The major efforts in this project have been postponed. Any necessary additional funds will be addressed in future budgets.

SENATOR ANDREWS: What has been accomplished with the $6.7 million provided for this project to date? What do you further hope to accomplish in FY 1987?

ANSWER: To date, we have developed a candidate craft study, distributed a draft Request for Proposals to industry for comment, and formulated the acquisition strategy. In FY 1987, we will develop the technical requirements specifications (Test and Evaluation Plan, Systems Engineering Plan) necessary to award multiple, parallel competitive contracts to develop alternative Patrol Boat (WPB) design concepts for demonstration and evaluation testing in future years. We further plan to develop measures of merit that characterize the expected performance of these candidate concepts while performing Coast Guard missions.

R.D.T.& E. PROGRAM EMPHASIS

SENATOR ANDREWS: Senate Report 99-152 accompanying the 1986 DOT Appropriations Bill directed that in 1986 increased emphasis will be devoted to research and development associated with enforcement of laws and treaties. The table on page 146 of your budget justification indicated that 1986 post-sequestration staffing for enforcement of laws and treaties R.D.T. & E. declines by 3 positions from the 1985 level. (no other program activity drops by more than 1 position), and post-sequestration funding for enforcement of laws and treaties R.D.T.& E funding declines by 14.6 percent from the 1985 level (total R.D.T. & E funding declines by 12.6 percent). Given these facts, how do you intend to fulfill the Committee's direction for emphasis in 1986?

ANSWER: To the extent possible, the Coast Guard is complying with the Committee's direction on the enforcement of laws and treaties in FY 1986 although the referenced table does show a decline in both personnel and funding for this program. However, the decline indicated is reflective of a decrease in annual appropriations being requested. For a no-year appropriation like RDT&E, a decrease in appropriations does not necessarily bear a direct relationship to level of program effort because of the availability of unobligated carryover balances. A better comparison of level of effort can be made using the table on page 138 of Coast Guard's budget justification. This table shows the enforcement of laws and treaties program increasing from $2,040,000 in FY 1985 to $8,491,000 in FY 1986. There would be a corresponding increase in personnel since, for budget presentation purposes, personnel are assigned to the various budget activites based on a percentage distribution of total funds available.

SENATOR ANDREWS: Proposed 1987 staffing for enforcement of Laws and Treaties R.D.T.&E decreases from 61 to 57 positions even though total staffing for R.D. T.& E. remains constant. Please explain. Is this an indication of a deemphasis on R.D.T.&E. in this program area?

ANSWER: The table on page 146 presents program levels and related staffing in relation to the annual appropriations being requested for Research, Development, Test, and Evaluation. This table does indicate a decline in staffing for enforcement of laws and treaties but, in fact, such will not be the case. As indicated in the table on page 138, the enforcement of laws and treaties program is estimated at $8,491,000 for FY 1986 and $7,474,000 for FY 1987. These figures represent exactly 34.0% of total estimated program costs for each of those years. Therefore, staffing for enforcement of laws and treaties is expected to remain constant for those two years.

SENATOR ANDREWS: While funding for other program areas remains constant or increases, FY 1987 funding for marine environmental protection decreases from $1.979 million to $1.78 million. At the same time, proposed staffing decreases from 19 to 15 positions. Why has this program area been selected to absorb such large cuts? What projects will be eliminated?

ANSWER: We have done a lot of work in this area over the past several years. Other projects are of higher priority now and offer greater potential for high payoff results, which is the criteria we use to select projects on which to concentrate available funds. We will complete an offshore pollution response project in FY 1986, and have reduced our containment, treatment and recovery project effort for FY 1987.

SENATOR ANDREWS: Funding for defense readiness R,D,T,&E increases from $1.108 million to $1.399 million in FY 1987. Staffing in this program area increases from 10 to 16 positions. Why has this program area been selected for a large increase? What specific programmatic goals will be achieved through this increased research?

ANSWER: The higher cost is due to increased funding of the multi-mission command and control project, which eventually benefits all Coast Guard missions, particularly defense readiness and law enforcement. In FY 1987, the major activity in this project is procurement of a multi-mission operational model.

SENATOR ANDREWS: Why will it require 16 positions to administer a $1.399 million program level for defense readiness R,D,T,&E in 1987 when the same program level was administered with 11 positions in 1985?

ANSWER: The entry showing 16 positions was incorrect. The FY 1987 staffing figure should be 11 positions, the same as in FY 1985. In both FY 1985 and FY 1987, all resources identified as "defense readiness" were part of multi-mission projects. The staffing amounts are subjective estimates of how much each mission benefits from the multi-mission projects.

SENATOR ANDREWS: On page 150 of your budget justification, you state that the Search and Rescue Satellite Aided Tracking (SARSAT) system has shown its feasibility in a demonstration and evaluation completed in 1985. However, the system has shortcomings that make it unacceptable for operational use without further development. What are these shortcomings?

ANSWER: The SARSAT system became operational in October 1984. However, there are shortcomings which must be addressed to improve the system's effectiveness. R&D efforts focus on solving these problems. Shortcomings of the present system are:

- A high false alarm rate for current Emergency Locator Transmitter (ELT) and Emergency Position Indicating Radio Beacon (EPIRB) devices. False alarms tie up valuable search and rescue resources. Improving the quality of existing and future beacons will reduce the false alarm rate, improve response time and ensure better use of our resources.
- The current local user terminals (LUTs) are expensive ($1.5 million to $2 million). The Coast Guard needs to develop a considerably less expensive LUT and to improve the efficiency and reliability of LUT and Master Control Center (MCC) operations. This will allow the Coast Guard to provide better and more cost-effective service in fringe coverage areas.
- The current beacons do not provide a medium for information exchange between victims and the Regional Control Center (RCC), the MCC and the search team. The development of interactive beacons will provide this capability.
- The current system does not provide for instant alerting. The integration of geo-stationary satellite data will provide this capability and hence decrease response time.
- Each SARSAT report has two possible solutions (i.e., a true image and a false or "echo" image). Continued development will eliminate the ambiguity caused by a false image generated with each true image.

SENATOR ANDREWS: By when and at what additional cost to you expect the system to be operational?

ANSWER: The system became operational in October of 1984. The estimated cost of the R&D support needed to address system shortcomings during FY 1987-89 is $950 thousand.

RESEARCH SUPPORT FOR THE PERSONNEL SUPPORT PROGRAM

SENATOR ANDREWS: Your R,D,T,&E budget proposes $200,000 for a new start project to, among other objectives, develop workforce productivity measures, efficient recruiting tools, and the ability to apply DOD personnel research results to the Coast Guard. How would this program assist you in accessing DOD personnel research?

ANSWER: The overall objective of the Comprehensive Personnel Program is to increase Coast Guard productivity and efficiency by improving the management of personnel force structure, careers and costs. To achieve these improved personnel efficiencies, we need adequate analytical tools. We intend to maximize the application of DOD (as well as commercial) research results to minimize our costs. However, the significant differences between DOD and Coast Guard organizational size and peacetime missions preclude us from applying most DOD models directly to our needs. DOD continues to move ahead with intensive research; to keep abreast, a Coast Guard representative attends meetings of the Office of Naval Research Manpower Committee. Current Coast Guard personnel research efforts reflect knowledge of existing and planned (FY86-88) DOD personnel research efforts. As DOD initiates research of interest to the Coast Guard, a small transfer of funds provides us with research "customized" to the Coast Guard personnel scenario.

HOUSE COMMITTEE DIRECTION

SENATOR ANDREWS: House Report 99-256 directs the Coast Guard to report to the House and Senate Committees on Appropriations prior to February 15 with regard to the availability of appropriate All-Digital Technology and the Coast Guard's plan for research in this area. This report has not yet been received by the Committees. What is its status? When are we likely to receive the report?

ANSWER: The Coast Guard Report on All-Digital Technology was delivered to the Senate Committee on Appropriations, and House Appropriations Subcommittee on Transportation on February 24, 1986.

SENATOR ANDREWS: Your proposed 1987 program for research and development under enforcement of Laws and Treaties does not appear to provide funding for All-Digital Communications technology. Is this true? What are your plans for research in this area?

ANSWER: Our FY-1987 Research, Development, Test and Evaluation (RDT&E) budget contains a multi-mission project to study command and control systems. This project includes a study of search and rescue station command and control system which will include digital communications. No other projects that involve digital communications are included in the FY-1987 RDT&E budget.

SENATOR ANDREWS: Research and Development funding under enforcement of laws and treaties includes $200 thousand for a feasibility study for the use of remotely piloted vehicles in various Coast Guard missions. Please provide a brief description of how this technology would operate.

ANSWER: The Coast Guard would use remotely piloted vehicle (RPV) systems for surface vessel identification in drug interdiction and enforcement of fishing treaties. The RPV would be launched from a patrolling vessel and used in conjunction with intelligence information and shipboard radar to improve a cutter's ability to detect, classify and identify targets.

SENATOR ANDREWS: What is the estimated total cost of expected research in this area?

ANSWER: Total RPV research and development costs are estimated at $1.3 million.

SENATOR ANDREWS: When would you expect to have such technology operational?

ANSWER: The three prototype remotely piloted vehicles will undergo operational testing in FY 1987. The research and development evaluation is expected to be completed in FY 1988. The project will then be handed off to the program manager in the Office of Operations, who will decide when the equipment will be used operationally.

RETIRED PAY

SENATOR ANDREWS: The March 1 sequester cut FY 1986 Retired Pay $10.3 million from the enacted level of $351,800,000. The supplemental proposes a further $2 million transfer to Operating Expenses. How are these reductions being accommodated given a higher estimate of 1986 personnel (p. 114)?

ANSWER: New projections, based on actual obligations through March, show that the fund requirements are less. This, coupled with the elimination of the COLA, has allowed the reductions in this account.

SENATOR ANDREWS: If the revised FY 1986 level of $339,489,000 is adequate, why should a 7% increase be necessary in FY 1987 with only a 1% personnel increase?

ANSWER: A 7% increase in FY 1987 is not required. A $10,000,000 reduction is requested in proposed legislation to forego the cost of living in FY 1987. The total FY 1987 request for Retired Pay is $354,000,000. This is an increase of 4% over the FY 1986 funding level. Of this increase, 2% is required to meet the cost of new retirees on the rolls. The remainder of the request is required for a projected increase in medical costs.

SENATOR ANDREWS: With February 1986 unobligated balances of $212,305,000. Why not use more retired pay funds for supplemental requirements?

ANSWER: The unobligated balance of $212,305,000 was reduced by $10,311,000 under the provisions of Gramm-Rudman. An additional $2,000,000 was transferred to other accounts. The Coast Guard does not anticipate any excess funding in FY 1986. Through March nearly 50% of the retired pay funds have been obligated.

RETIRED PAY - MEDICAL

SENATOR ANDREWS: What was the actual medical care inflation for FY 1985, as compared to last year's 12.6% estimate? What will the rate be in FY 1986, and what is budgeted for FY 1987?

ANSWER: The actual value for inflation of medical care costs for FY 1985 is not yet available. For the first ten months of the year the inflation rate was approximately 6%. We expect the annualized rate to be much higher when the effect of the 30% increase in rates charged by DOD facilities becomes even more pronounced. We expect the final FY 1985 inflation rate to be in the 36% range. For FY 1986 and FY 1987 we expect to experience an inflation rate of 10% This estimate is based on Commerce Department estimates for the national economy.

HOMER, ALASKA

SENATOR ANDREWS: Senate Report 99-152 required the establishment of a seasonal search and rescue detachment at Homer, Alaska. What is the status of that project? What will annual operating costs be?

ANSWER: Due to budgetary constraints brought about by the Balanced Budget and Emergency Deficit Control Act of 1985, no steps have been taken to establish a seasonal search and rescue detachment at Homer, Alaska.

EMERGENCY LOCATORS

SENATOR ANDREWS: The NTSB has recommended the Coast Guard require Emergency Position Indicating Radio Beacons (EPIRB) on all documented U.S. fishing vessels. So far the Coast Guard's response has been only to support the use of EPIRB's. Will the legislative authority to require EPIRB's be part of the next Coast Guard authorization? If not, why not?

ANSWER: The Coast Guard has requested that legislative authority to require EPIRBs on uninspected vessels be included in the next Department of Transportation legislative program. We have also provided drafting assistance requested by Congressman Bateman on a bill that would provide the Coast Guard with authority to require EPIRBs on fishing vessels, but not on other uninspected vessels.

In the interim, the Coast Guard continues to stress the importance of carrying EPIRBs on fishing vessels. We have included recommendations to carry EPIRBs in two Navigation and Vessel Inspection Circulars (NVIC 6-85 and 8-85), prepared by our Fishing Vessel Safety Task Force as part of a series of recommendations on fishing vessel safety practices.

RECREATIONAL BOATING

SENATOR ANDREWS: The Coast Guard agreed, in responses to an NTSB report on alcohol's role in recreational boating accidents, to urge States to adopt standard accident reports. Is alcohol involvement now a standard element of boating accident reports? If not, why not? What other measures are underway to obtain better national statistics on alcohol and boating accidents?

ANSWER: A Boating Accident Report (BAR) form, modified to include alcohol entries, was sent to each State boating law administrator in November 1985 to provide guidance on collecting this information. Many of the States have included alcohol entries on their BAR forms. Proposed rulemaking pertaining to implementation of the alcohol amendments contained in the Coast Guard Authorization Act of 1984 is being issued. Final rulemaking will make the inclusion of information as to whether or not alcohol was a cause or contributed to the casualty mandatory on the boating accident report.

While the BAR is an important data gathering tool, particularly if a State or local officer assists in completing it, accident investigation is the best means of obtaining definitive data on the involvement of alcohol in a boating accident. The States have been encouraged to increase and improve their boating accident investigations. In January 1985, at the National Boating Safety Course for State officials at the Coast Guard Reserve Training Center in Yorktown, VA, the segment on boating accident investigation was expanded in the curriculum and with emphasis on State investigations. Simultaneously, a segment on intoxication identification and detection was included.

Through Coast Guard participation in 1984 and 1985 conferences of the National Association of State Boating Law Administrators and continuing contact with individual administrators, a greater awareness of the need for better data on alcohol and boating has been created.

AIRSHIPS

SENATOR ANDREWS: The Coast Guard had underway a program to assess the use of airships in surveillance missions. This activity was cancelled in September 1985, on the grounds that Coast Guard work duplicated Navy work in the area. Why did it take so long to find this effort redundant? How much was obligated for the effort and what was gained from the investment?

ANSWER: The Navy program did not get underway until 1985. Approximately $75,000 had been obligated at the time the program was redirected. Remaining funds will be used to monitor Navy research efforts. In return for our investment, we have learned much about the current state of airship technology. We have also established a close working relationship with the Navy, ensuring that we can participate in and remain informed on their continuing research.

SENATOR ANDREWS: How much remained unobligated of programmed Airship research funds when the program was cancelled? What other methods of radar surveillance show greater promise than airships?

ANSWER: $425,000 was unobligated at the time the program was redirected. We are not aware of any other methods which offer greater promise for high endurance radar surveillance in Coast Guard missions.

RESERVE TRAINING

SENATOR ANDREWS: The budget shows a FY 1986 Selected Reserve of 12,600. How was the 100 increase achieved given a funding request to support 12,500 and a Gramm-Rudman-Hollings sequestration of $2,645,000?

ANSWER: The 12,600 is an end-of-year strength level. This figure was based on coming out of the 1986 summer months -- our prime recruiting and training season -- with a growing force level to permit us to reach our FY 1987 requested strength of 13,000. Also, 12,500 is a personnel floor that must be maintained in FY 1986 to meet Authorization Act requirements. Because of this floor and our planned FY 1987 increase in strength, it was determined to absorb the reductions needed to accomodate the FY 1986 Gramm-Rudman-Hollings sequestrations in program areas other than strength. Specifically, non-prior service recruiting and some two-week annual training programs were reduced and some facilities maintenance projects were deferred. The President's FY 1987 budget request seeks to return those programs to their former levels.

SENATOR ANDREWS: Why does the budget request an 11% funding increase in FY 1987 to support a 500-person (or 4%) increase?

ANSWER: While the FY 1987 budget does request an 11% increase over FY 1986 post-Gramm-Rudman-Hollings levels, only a small part of that is for the 500-person growth of the Selected Reserve. Items that make up the majority of the request result mainly from cost-of-living and entitlements increases and are needed to maintain program performance levels. Included in the requested increases are:

a.	Cost of Continuing FY 1986 Programs in in FY 1987	$ 413,000
b.	Selected Reserve Education Benefits	$1,785,000
c.	Annualization of FY 1986 Military Pay Raise	$1,500,000
d.	Increase Mobilization Force	$ 975,000
e.	Increase Recruiting and Reserve Training	$1,670,000

DATA RECORDERS

SENATOR ANDREWS: Last November the Coast Guard informed Leigh Instruments Limited that its unsolicited proposals for a Data Recorder system and Deployable Crash Position Indicator system were technically outstanding. How much funding would be required to equip Coast Guard aircraft with FDR's, CVR's and Position Locators?

ANSWER: It is estimated that approximately 3.4 million dollars would be required to engineer, acquire and install CVR and FDR equipment in HU-25A aircraft. The aircraft is already equipped with a deployable emergency locator tansmitter.

SENATOR ANDREWS: What is the cost/benefit of such devices on Coast Guard equipment?

ANSWER: It is not possible to accurately quantify, in dollars, the benefits that Flight Data Recorders (FDR) and Cockpit Voice Recorders (CVR) would generate. However, these systems would enable more complete post accident investigation into the causes of fatal as well as non-fatal aircraft accidents. This information would be used to prevent the recurrence of similar accidents, thus hopefully avoiding additional loss of valuable personnel and high cost capital assets.

SENATOR ANDREWS: Why is funding not requested? Is this a military priority for non-Coast Guard aircraft? Would research funding be necessary to advance this initiative, or would funding come from acquisition, construction and improvements?

ANSWER: Coast Guard wide budget priorities have limited the request of funds for this purpose.

The exact priority the other military services place on their data recorder programs is unknown.

No research and development efforts or funding would be required to equip Coast Guard aircraft with data recorders.

LONDON OFFICE

SENATOR ANDREWS: How much was or will be spent in FY 1985 through FY 1987 for the Coast Guard's London Office? Provide a position summary for each year.

ANSWER: The most recent year for which actual costs are available is FY 1985. Using an inflation factor of 4.4% for 1986, and 4.1% for 1987, the following are annual recurring costs:

($ in 000s)

	FY 1985	FY 1986	FY 1987
Positions	11+3+15+0	11+3+15+0	11+3+15+0
Salaries	$1136	$1186	$1235
Pers transfer costs	109	114	119
General Admin	52	54	56
Space Rent	173	181	188
Travel	129	135	141
Communications	125	130	135
Total	$1724	$1800	$1874

SENATOR ANDREWS: What specific statutory or treaty-mandated requirements establish the need for this office?

ANSWER: 14 U.S.C. 81 states that the Coast Guard may establish, maintain, and operate electronic aids to navigation systems required to serve the military needs of the armed forces of the United States. This is the statutory basis for the Loran system in Europe. The Activities Europe office provides command and control, engineering support, and logistical support for 5 Coast Guard-manned and 6 Host Nation-manned Loran-C stations.

14 U.S.C. 1 states that the Coast Guard is a military service and a branch of the Armed Forces of the United States at all times. Additionally, 14 U.S.C. 2 requires that the Coast Guard, among its many primary duties, "...shall maintain a state of readiness to function as a specialized service in the Navy in time of war." During normal peacetime operations, Commander, Activities Europe serves as Coast Guard advisor to Commander in Chief, U.S. Naval Forces, Europe (CINCUSNAVEUR). In the event of hostilities, he assumes his wartime role of Commander, U.S. Coast Guard Forces, Europe, under the operational control of CINCUSNAVEUR and Commander in Chief, Atlantic Fleet (CINCLANTFLT). He has additional functions assigned as per classified plans.

While the London office exists to meet the requirements of the Coast Guard's defense obligations, an ancilliary benefit of its location is that it offers an efficient means for the Commandant to fulfill the provisions of 14 USC 142. This provides that the Coast Guard may exchange information with various international maritime safety organizations, most of whom have headquarters in London or Paris. For example, the Coast Guard is the lead agency for the United States in deliberations of the International Maritime Organization of the United Nations. It meets in London.

LEASED HOUSING

SENATOR ANDREWS: Outline the specific steps taken to improve utilization of leased housing, pursuant to the GAO report. What savings are reflected in the FY 1986 budget request?

ANSWER: The Coast Guard has taken the following steps to improve utilization of leased housing:

1. Revised eligibility requirements for family housing to include only pay grades E-6 and below. Except where justified by hardship or inadequacy, housing allowances (BAQ and VHA) should cover the majority of the planned portion of housing costs.
2. Continued to limit eligibility for unaccompanied leased housing to paygrades E-4 and below except where justified by hardship or inadequacy.
3. Increased the frequency and quality of housing inspections to ensure proper maintenance is being performed and to minimize damages.
4. The GAO audit noted that the leased housing program had no occupancy rate standard, and noted that the occupancy rate of the districts surveyed was 94.4%, which was below the 98% occupancy rate standard for Coast Guard owned quarters. The Coast Guard established a 98% occupancy rate standard for leased housing (same as for owned housing), and required the submission of vacancy reports aimed at reducing the time vacant units remain in the leased housing inventory. The occupancy rate for leased housing for FY85 was 97.6%. It is expected that the occupancy rate will soon exceed 98% and will remain above the standard.
5. Scheduled a series of district housing officer training courses to instruct local housing authorities in leased housing program administration and housing referral techniques.
6. No savings were reflected in the FY 1986 budget request. The purpose of our efforts has been to insure that we are getting the maximum benefits out of the money spent for the program; i.e., be more productive

COMDAC

SENATOR ANDREWS: What changes in the Coast Guard COMDAC program have resulted from the most recent Inspector General semi-annual report?

ANSWER: The Inspector General report had two findings. Finding A recommended that acquisition project control be more centralized. The Coast Guard agreed with this finding which was similar to the conclusion reached by an internal review and congressional direction. An Office of Acquisitions was formed in January, 1986 which will fulfill this need.

Finding B recommended changes be made to contracts so that cash management procedures be fully considered. The Coast Guard's present procedures are fully consistent with the Federal Acquisition Regulations (FAR) as the IG Report indicated. No changes have been made to the COMDAC program since all of the associated contracts have reached or are nearing completion. The Coast Guard will consider cash management procedures for future contracts on a case-by-case basis.

QUESTIONS SUBMITTED BY SENATOR CHILES

MIAMI RIVER

SENATOR CHILES: Commandant, as you know, I met with Admiral Cueroni two weeks ago in Miami and discussed with him a problem which results from Coast Guard regulations. The Customs Service is disposing of seized drug vessels through the forfeiture and disposal process. Many of these boats are being sold to fishermen who, at considerable expense, re-equip the boats only to find that the Coast Guard will not issue the needed documentation. I understand this problem is traced back to a 1790 Coast Guard law which refers to adjudicated forfeitures. In October of 1984, as you know, we updated the forfeiture process to permit the large majority of the cases to go through an administrative process to relieve the burden on the court but also to speed up the disposal process. The Coast Guard's failure to keep up in this case, however, is causing problems as the word is beginning to spread that boats auctioned by the Customs Service cannot be documented by the Coast Guard. When can we expect this problem to be cleared up?

ANSWER: The Customs Service is acutely aware of the situation and requested that we change our interpretation of "adjudged forfeited" to include administrative forfeitures. The Chief Counsel of the Coast Guard researched the issue and opined on April 15, 1986, "that vessels administratively forfeited are 'adjudged to be forfeited for a breach of the laws of the United States,' and therefore may be issued licenses for the domestic trades." The Chief Counsel also opined that a declaration of forfeiture, whether judicial or administrative, clears a vessel of all prior liens and mortgages and "[t]herefore, a declaration of forfeiture constitutes sufficient authority to remove encumbrances of record." Those prior encumbrances then attach to the proceeds of sale. Our regulations currently do not provide for removal of encumbrances of record based upon evidence of forfeiture, whether judicial or administrative.

In light of the Chief Counsel's opinion, we are proceeding with an amendment to Part 67 of Title 46, Code of Federal Regulations. The amended regulations would provide for the issuance of licenses for the domestic trades to vessels, the subject of forfeitures, whether judicial or administrative. The amended regulations would also provide for the removal of all encumbrances of record, based on the presentation of evidence of such forfeitures. In keeping with the Department of Transportation's regulatory policy, proposed rulemaking will be published in the Federal Register with a 30-day comment period. The final rule will be made effective upon publication. Clearance of the proposed rulemaking will be expedited within the Coast Guard and the Department. We expect to publish a Notice of Proposed Rule Making (NPRM) by 15 May 1986 and a Final Rule by 1 July 1986.

COAST GUARD USE OF NAVY PLATFORMS

SENATOR CHILES: As you know, last year's Defense Authorization Bill included the directive that $15 million be transferred to the Coast Guard operations account for use in hiring 500 Coast Guard personnel to use Navy platforms as an augmentation to the existing Coast Guard fleet for drug interdiction and law enforcement patrols.

In view of the fact that the Coast Guard does not control the timing or the route of these Navy patrols, how useful have you found this program?

ANSWER: We have found Coast Guard augmentation personnel (TACLETS) to be a very effective program, and the key to effective use of Navy ships. Without them, the Navy would be hampered in their law enforcement assistance activities. Since the program began, Coast Guard TACLETS have made 23 drug seizures from Navy ships (six in FY 1985). However, effectiveness is reduced to some degree when naval vessels are assigned missions where law enforcement cannot take priority. Our best results occur during major operations (WAGONWHEEL/HAT TRICK), where Navy units are specifically assigned to operate with the Coast Guard. TACLETS have effectively provided a wide range of enhanced law enforcement capability to Naval and Coast Guard units. Smugglers now must take precautions to avoid ALL Navy units, since they don't know when a Coast Guard TACLET may be aboard. The program continues to be an effective way to optimize the use of assets for National Security priorities.

BOATING SAFETY PROGRAM

SENATOR CHILES: I noticed in your budget proposal that you are proposing a flip flop in the boating safety money that goes to the Coast Guard to offset your operating expenses and the amount that goes to the States for their recreational boating safety assistance programs. While the Coast Guard is currently authorized to receive $15 million and the States program is authorized to receive $30 million, the Coast Guard is proposing that it receive $30 million and the States only receive $15 million this year. Legislation will, of course, be required to implement this change. What is the rationale for proposing a flip in the amount received by the Coast Guard and the States for boating safety program?

ANSWER: The Coast Guard provides several services to recreational boaters including search and rescue, aids to navigation and boating safety programs. The value of these Federal services is about $200 million annually. Our budget request recognizes that offsetting some of these costs through a larger share of the Boat Safety Account is an appropriate use of Federal motorboat fuel taxes. The proposed $15 million authorization for the States is consistent with the amounts appropriated for their use in fiscal years 1984 and 1985. Fiscal year 1986 is the first year that the full authorized $30 million was appropriated for allocation to the States.

SENATOR CHILES: On page 200 of your budget justification, you show the Aquatic Resources Trust Fund which finances the boating safety programs. That page of your budget shows the $45 million to boating safety programs, $1 million provided to the National Park Service for their land and conservation and in excess of $161 million going to the U.S. Fish and Wildlife Service for the Sport Fish Restoration activities. After making these payments, the account shows $138.9 billion unappropriaated balance at the end of the year. Are we ever going to use the large unappropriated balances in the Aquatic Resources Trust Fund or is this another situation like the Aviation Trust Fund and the Highway Trust Fund where the large balances sit in the Treasury and are not spent for their intended purposes? If you do not propose drawing down these unappropriated balances, have you considered requesting a recission or transfer of these funds to finance other Coast Guard activities?

ANSWER: The Coast Guard does not draw on the unappropriated balances other than for funds designated by law to be transferred to the Land and Water Conservation Fund, Boat Safety, and Coast Guard Operating Expenses appropriation. At the end of the fiscal year, any excess in the unappropriated balance or the remainder of the revenue by law must be deposited into the Sport Fish Restoration Account (formerly the Dingell-Johnson Fund). This unappropriated balance at the end of the year then becomes available to the Department of Interior at the beginning of the next fiscal year for Sport Fish Restoration activities.

RE-ENLISTMENT RATES IN THE 7TH DISTRICT

SENATOR CHILES: Admiral CUERONI has told me that the 7th District has the lowest re-enlistment rate of any district in the Coast Guard. He attributes this to the fact that Coast Guard personnel in the 7th District are required to work longer hours and more days out of the month because of the heavy law enforcement activities in the 7th District. Does the staffing pattern of the Coast Guard recognize the special needs of the 7th District for an added complement of people in order to help improve this overall re-enlistment problem?

ANSWER: Yes. Billet allocations are continuously being adjusted throughout the Coast Guard to meet changing missions and workloads. Temporary personnel assignments are also used to offset seasonal impacts or special operations. Additionally, ships and planes - with their crews - are regularly assigned to operations in the 7th District to relieve pressure on the locally assigned units.

A-76 CONTRACTING OUT PROCESS

SENATOR CHILES: The Coast Guard cut a total of 915 positions in fiscal years 1985 and 1986 with the anticipation that A-76 private sector reviews would find activities to be contracted out to the private sector and, therefore, the private sector could provide these services cheaper than the 915 positions in the Coast Guard. What has been your success in contracting out these positions? Have you met the target of 915 positions for fiscal years 1985 and 1986?

ANSWER: We have completed, or will shortly complete, reviews of 52 Coast Guard commercial activities and have converted 40 of them to contract. 604 positions have been reviewed. 392 positions have been identified for reduction as a result of contracting-out. 6 positions have been identified for reduction as a result of productivity improvements in activities retained in-house. Other reviews, begun in 1985, will be completed in 1986. We are making steady progress and hope to meet the required reductions by the end of fiscal year 1986.

SENATOR CHILES: Your budget assumes that you will be able to eliminate another 231 personnel as a result of A-76 reviews in fiscal year 1987. How likely is it that these additional reductions and savings will really take place as scheduled? What types of activities are planned for A-76 reviews?

ANSWER: The major, consolidated reviews begun in 1986 are planned to be completed during 1987 and are expected to yield the productivity improvements estimated in our budget. The focus of our 1986 and 1987 programs will be in facilities maintenance, industrial operations, LORAN and OMEGA system operations and maintenance, and warehousing.

SENATOR CHILES: Please submit a list of your A-76 contracting out actions in the past two years.

ANSWER: The following Coast Guard commercial activities have been reviewed and contracted out during fiscal years 1985 and 1986.

TYPE	LOCATION	POSITIONS ELIMINATED
Food Service:	National (12 sites)	196
	Brooklyn, NY	7
	San Diego, CA	7
	Houston, TX	5
	Gray's Harbor, WA	6
	Ketchikan, AK	6
	Seattle, WA	9
	Alexandria, VA	5
	Fort Macon, NC	4
	Sault Ste. Marie, MI	6
	Woods Hole, MA	5
Electronics Maintenance:	Terminal Island, CA	12
	San Francisco, CA	32
Buoy Maintenance:	Detroit, MI	2
	Astoria, OR	10
	Milwaukee, WI	1
	Sault Ste. Marie, MI	3
	Galveston, TX	3
Data Entry:	Miami, FL	4
	New Orleans, LA	5
	Boston, MA	5
	Cleveland, OH	4
	Seattle, WA	3
Housing Maintenance:	Honolulu, HI	15
Security:	Elizabeth City, NC	11
	Houston, TX	2
	Galveston, TX	4
	Seattle, WA	5
	Boston, MA	15
	TOTAL	392

PASSENGER SAFETY VESSELS

SENATOR CHILES: In testimony before this committee, the Chairman of the National Transportation Safety Board stated that although the accident rate for large passenger cruise vessels was low, there was a potential problem in that safety requirements are keyed to gross tonnage rather than the number of passengers at risk. Consequently, manning and lifeboat requirements are not based on the number of passengers.

Is the Coast Guard aware of the NTSB's concerns and are you undertaking action to lessen this risk?

ANSWER: Yes, the Coast Guard is aware of NTSB's concerns.

Passenger-carrying vessels are governed by one of two sets of regulations, the applicability of which is based on gross tonnage. The breakpoint for the two sets of regulations is 100 gross tons, Subchapter T for small passenger vessels (under 100 gross tons) and Subchapter H for large passenger vessels (100 gross tons and over).

One instance where the specific safety regulations for a small passenger vessel are not considered appropriate is when the gross tonnage of a vessel is not proportionate to the vessel's size.

The Coast Guard has addressed the preceding issue in the Navigation and Vessel Inspection Circular (NVIC) 11-83 entitled "Regulations for large 46 CFR Subchapter T passenger vessels," which prescribes the additional regulations under Subchapter H to be made applicable to small passenger vessels that are innovatively designed to circumvent the original intent of the regulations.

Large oceangoing passenger cruise vessels are required to carry lifeboats for all persons on board, plus an additional quantity of inflatable liferafts. The small passenger vessel lifesaving rules require oceangoing small passenger vessels to carry life floats for all persons on board. This is a potential problem, because life floats do not keep survivors out of the water. To alleviate this condition the Coast Guard intends to propose regulations that would require liferafts or inflatable buoyant apparatus, vice life floats, for 100% of the persons on board.

The number of passengers carried is the prime factor upon which Coast Guard small passenger vessel manning decisions are made. Coast Guard policy dictates that oversized and multi-deck vessels as well as vessels carrying large numbers of passengers require increased manning levels. In these particular situations, the required number of licensed operators and/or deckhands is increased commensurate with passenger levels.

The qualifications for licensed personnel on small passenger vessels are not the same as for those over 100 gross tons. However, the licensing standards for small passenger vessels are being revised. While license examination topics will remain essentially the same, more questions will be developed in certain critical areas such as stability and damage control, lifesaving and emergency procedures.

The Coast Guard has an ongoing regulatory project to review and update 46 CFR Subchapter T. This project will ensure that the regulations continue to be suitable for today's small passenger vessels and their varied operations.

COAST GUARD PROCUREMENT

SENATOR CHILES: Last year this committee directed the Coast Guard to establish an Office of Acquisition that would consolidate and improve the overall procurement process within the Coast Guard. I was pleased to see that the Coast Guard has complied with this committee directive and I have high hopes that all the several procurement deficiencies that have occurred in the past will be corrected with the new organization now in place. As you know, however, your 1987 budget proposal do not include funding for necessary training to upgrade the skills of the 170 people who will be in this new acquisition office. I understand that there was an internal request of $500,000 which was scratched even within the Coast Guard and did not make it to the Office of the Secretary. Why in view of the long-standing deficiencies in the procurement operation of the Coast Guard is there no funding request for the training of the procurement staff within the new acquisition office?

ANSWER: During this period of severe budget contraints, we have found it difficult to fund training to the level envisioned to be ideal. However, we are actively pursuing alternatives that will still fulfill our needs. For example, in addition to providing for procurement training, we have worked with the Defense Systems Management College (DSMC) to provide program, logistics, and financial management training for the Office of Acquisition. DSMC has been most cooperative and has provided Coast Guard with quotas for the last quarter of FY86 and FY87. DSMC has also asked the Coast Guard to provide its training needs through FY92 for purposes of establishing quotas. Since the DSMC programs are provided without charge, we believe that significant improvements have been made in training for the entire Office of Acquisition notwithstanding our inability to fund such training to a level originally contemplated.

SENATOR CHILES: Also, the several major procurement programs within the Coast Guard Acquisition Office will be headed up by a project manager and there are currently 10 major acquisitions underway and 10 project managers have been identified for these procurements. I understand, however, that a Coast Guard captain will be the senior official in charge of each of these major acquisitions. In view of the fact that it often takes 7 or 8 years to complete a major acquisition and Coast Guard officers typically rotate every 2 or 4 years, why is a Coast Guard officer being assigned to manage these major acquisitions as opposed to a senior-level civilian manager?

ANSWER: It is consistent with Department of Defense acquisition philosophy to have a senior officer serve as project manager. The significant improvements recently made in the Coast Guard acquisition process are the elevation of the project manager function to a senior officer and the creation of a support structure staffed by civilian and military specialists having staggered rotational assignments. A proper balance between civilian and military staffing is what will assure program continuity.

SENATOR CHILES: Approximately a year ago the Inspector General at the Department of Transportation issued a report on the U. S. Coast Guard's Ship Inventory Control system at Curtis Bay, Maryland. That review found that over 40% of the inventory valued at $44 million was either excess, inactive, missing, or unserviceable. Problems with the Ship Inventory Control system had first been identified in 1974. What has the Coast Guard done in the last year to correct the inventory problems at Curtis Bay?

ANSWER: Since the DOT-IG Audit 16 July 1985, 3,208 line items have been found to be (1) managed by another government agency, (2) obsolete or (3) no demands have been received in several years. Of these, 2,505 have been declared excess and either offered to the Coast Guard fleet or reported to the local Defense Property Disposal Office (DPDO) for disposal. Action on the remaining 703 line items continues.

A first count physical inventory of SICP material stored at the Coast Guard YARD is complete. The match rate in quantities between SICP asset and YARD warehouse records was 88%. A second count physical inventory of unaccounted for high cost items is ongoing. Research and survey documentation are pending.

OIL RIG SAFETY

SENATOR CHILES: In previous testimony before this committee, the national transportation safety board has expressed concern over the loss of life - over 175 deaths - which have resulted from capsized or sinking of offshore oil rigs. The NTSB stated that the Coast Guard needs to publish strict qualification and manning regulations for these rigs.

What is the Coast Guard's view of the need for improved regulations for off-shore rigs?

Do you have improved regulations under review?

ANSWER: The Coast Guard agrees that there is a need for improved personnel qualifications and licensing standards for service on mobile offshore drilling units (MODU's). As part of a complete revision of all licensing and manning regulations begun in 1981, the Coast Guard has been developing industry specific licenses with extensive training, experience, and examination requirements. The new licenses, entitled Offshore Installation Manager, Barge Supervisor, and Ballast Control Operator, will allow service only on MODU's and are effectively non-navigating in design. As presently proposed, the licenses will also be limited to particular modes of operation (i.e. moored on location, under tow, bottom bearing mode) with appropriate training and exams for each mode. In further recognition of the need for improved personnel licenses and qualifications on MODU's, merchant mariners possessing licenses for service on conventional vessels must also obtain the required training, experience, exams and license endorsements prior to serving on MODU's.

These regulations were originally discussed in a conceptual advance notice of proposed rulemaking in October 1981. After minimal public input, a notice was published in August 1983. With 19 public meetings and over 700 written public comments, a supplemental notice was published in October 1985. Now totalling over 1300 written comments and six formal public hearings, the Coast Guard has begun drafting an interim final rule. It is planned for publication in late 1986-early 1987 with a gradual implementation phase-in over a 2-3 year period.

INCREASE IN RECRUITMENT COSTS:

SENATOR CHILES: Your justification asks for funds to increase recruiting from $60 to $100 per applicant. What will these increased funds be used for? What is the comparable DOD cost per recruit?

ANSWER: The increased funds will be spent to produce two additional Public Service Announcements, various printed advertisements, and for literature replenishment and direct support of recruiter travel and local advertising.

To compare our advertising costs with those of the other Services, we must convert our cost per applicant (those who apply) to the cost per recruit (those who enter the Service). Coast Guard national advertising cost per recruit (as opposed to applicant) is currently about $120. If the request for additional funds is approved, the advertising cost will be about $246 per recruit. There is no separate funding for Reserve recruiting activities. Including Reserves, the cost per recruit drops to about $185. By general comparison, a recent issue of Navy Times listed the projected DOD FY86 advertising and promotional cost per recruit as follows:

Army	$570
Marine Corps	$418
Navy	$187
Air Force	$ 95

These figures do not include about $22,000,000 allocated to the Joint Recruiting Advertising Program which will assist the DOD Services in making their FY86 quota of 313,000 recruits. The Coast Guard is not a participant in this program.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

HOMEPORTING OF THE 270' WMEC

SENATOR HATFIELD: It has recently come to my attention that the Coast Guard intends to take several actions that directly impair services to the state of Oregon. I have been informed of plans to decommission the CITRUS, presently homeported in Coos Bay, Oregon, and to locate the four new 270' WMEC in Long Beach, California.

Last year I received a copy of portions of two memoranda discussing the decision to homeport the four 270' WMEC in Long Beach. In addition, in a letter from the Coast Guard to Mr. Frank Martin, Jr., General Manager, International Port of Coos Bay, it is stated there was "considerable analysis" in making that decision. From what I've seen, there has been very little analysis touching on issues important to Oregon. The combination of these proposed actions greatly concern me and I would appreciate your detailed response to my questions.

SENATOR HATFIELD: Has the Coast Guard done a comprehensive analysis of the Pacific Coast as it relates to drug enforcement and fisheries patrol? If so, I would appreciate your providing that analysis to the Committee.

ANSWER: The law enforcement requirements of the Pacific Coast are examined annually by the Enforcement of Laws and Treaties operating program manager. This review process makes the best determination of the cutter, aircraft, boat and personnel requirements needed to accomplish all of the various parts of the ELT mission including Drug Interdiction, Alien Interdiction, Foreign Fisheries Enforcement, Domestic Fisheries Enforcement, Other General Law Enforcement and Fixed Gear Conflict Avoidance. The law enforcement requirements are based on other quantitative studies such as the Coast Guard Drug Interdiction Study of 1982 (classified) and the Joint National Marine Fisheries Service / U. S. Coast Guard Fisheries Enforcement Study of 1985 in addition to input provided by the various Operational Commanders.

The 1985 fisheries study identifies a need for 112 cutter days for fisheries enforcement operations in support of the Washington-Oregon-California Ocean Salmon, Northern Anchovy, and Pacific Coast Groundfish domestic and foreign management plans.

SENATOR HATFIELD: Can drug interdiction for northern California, Oregon and southern Washington be adequately performed from Long Beach, California?

ANSWER: Because of the range and endurance of the 270' WMEC, it will be capable of conducting law enforcement patrols along the entire length of the west coast from Washington State to the Southern California border and further south if necessary. However, the primary operating area for the 270' WMECs will most likely be from the southwestern border of the United States south toward departure areas off the coasts of drug source countries. Approximately 78 % of the 270' WMEC law enforcment deployments are projected to be off the southwestern U. S. operating area. In addition, there will continue to be at least two other WMECs homeported in the Pacific Northwest to conduct drug interdiction patrols off the Washington, Oregon and Northern California coasts.

The endurance and sensor systems of the 270' WMEC, including the embarked helicopter, make it especially adaptable to extended deployments to areas of highest drug smuggling activity or threat. For example, CGC CITRUS made a major drug interdiction during fiscal year 1985, but the interdiction occurred 680 nautical miles southwest of San Diego.

Effective operations conducted to the south will prevent trafficking vessels from reaching northern waters.

SENATOR HATFIELD: Can the 270' WMEC perform their other responsibilities of fisheries patrol and high seas rescue adequately from Long Beach? Would a more centralized location more properly meet those needs?

ANSWER: As with drug interdiction patrols, the 270' WMEC has sufficient range and endurance to enable it to perform routine fisheries patrols along the entire length of the west coast from Washington State to the fisheries areas off the Northern California coast. While on patrol the 270' WMEC will be tasked with responding to high seas search and rescue cases in its vicinity. In addition, the other WMECs homeported in Washington and Oregon will also be tasked with fisheries patrol and high seas search and rescue in the Pacific Northwest.

While a more centralized position would be beneficial for fisheries patrol activities in the Pacific Northwest, it would also add at least four days of additional transit time per deployment for drug interdiction patrols off the southwestern U. S. border region.

These considerations were coupled with others such as training and Navy support to reach the decision to homeport the ships in Long Beach.

SENATOR HATFIELD: Was fisheries patrol, search and rescue given the same consideration as drug interdiction in the decision process?

ANSWER: All missions of the 270' WMEC were considered in the decision process including drug interdiction, foreign and domestic fisheries enforcement, search and rescue, and operational training. The decision was based however on the total cutter requirements for the west coast, the appropriate mix of cutters necessary to fulfill those requirements, as well as other training and support considerations.

The Joint National Marine Fisheries Service/U. S. Coast Guard Fisheries Enforcement Study of 1985 only projects a requirement for 112 WMEC patrol days for both foreign and domestic fisheries enforcement in the Washington, Oregon, and California fisheries area. Likewise, search and rescue statistics over the past five year show that the largest amount of time WMECs in the Pacific Northwest were used for search and rescue was only 230 hours for 22 cases in fiscal year 1985.

Although these cutter requirements are important, the drug interdiction requirement of approximately 834 WMEC cutter days is significantly greater. Currently there is only one WMEC, USCGC VENTUROUS, homeported in the southwestern U. S. So cutters from the Pacific Northwest must be deployed off southwestern U. S. operating areas to meet some of the law enforcement requirements there. The four 270' WMECs will provide a capability in the southwest to meet the drug interdiction needs. Likewise the WMECs remaining in the Pacific Northwest should provide adequate capability to meet the projected drug interdiction, fisheries enforcement, and search and rescue needs of the Washington, Oregon and Northern California coastal communities.

SENATOR HATFIELD: What role did the vulnerability of a consolidated base for Coast Guard cutters in a national disaster play in the decision to locate all four vessels in Long Beach? What consideration was given to the willingness of Coos Bay to commit $2 million for new facilities, and given the proximity of the dock to ocean shipping lanes and in an unobstructed channel?

ANSWER: Consolidated basing was not considered to be a problem since it is unlikely all four of the 270' WMECs would be in port at any one time and because the ships would likely be dispersed if a serious threat to the port existed.

The offer by Coos Bay to commit $2 million funding for new facilities is attractive, however it does not take into consideration life cycle costs. The 270' WMECs are techologically sophisticated platforms with minimally sized crews. They have many installed systems requiring Navy support. This support is readily available in Long Beach but not in Coos Bay. As a result, there would be much higher support costs (life cycle) in Coos Bay.

Long Beach was also considered superior to Coos Bay for access to the sea. Although the Port of Coos Bay is close to north-south shipping lanes and is unobstructed by bridges, the channel is subject to strong currents and the entrance is restricted by a bar. Long Beach has a deep draft, well marked channel which is unobstructed by bridges, and only a short distance from the sea.

Also, the 270' WMECs have considerable military tasking and capability. Long Beach is much closer to U. S. Navy training facilities and offers easy access to joint Navy/Coast Guard exercises.

SENATOR HATFIELD: Operating costs in Coos Bay represent substantial savings to the U. S. in terms of fuel savings at a more central location, and stores and ship supplies are also less. What weight was given to the cost of operations of the medium endurance cutters in making the siting decision?

ANSWER: The costs of operating, maintaining, and supporting the 270' WMECs were all considered in the homeporting decision. There will be considerably more fuel savings with the four 270's homeported in Long Beach since their primary operating area for both law enforcement and operational training will be off southern California.

Because of the complexity of the 270' WMEC class, it requires many mission critical spare parts which are available from Navy and commercial sources in the Long Beach area, but which are unavailable in Coos Bay. Therefore, while some stores and supplies may be cheaper in Coos Bay, Long Beach is much more capable of supporting a 270' WMEC cluster.

SENATOR HATFIELD: Housing, both sale and rental, is substantially less in Coos Bay than Long Beach. What consideration was given to the cost of living for the officers, enlisted personnnel and their familites, in the decision to locate in Long Beach, California.

ANSWER: Availability of housing and quality of life are important factors and were considered in the homeporting decision. Housing costs are less in Coos Bay than in Long Beach. However, this is offset by the availability of government owned and leased housing units in the Long Beach area for crew members and their families. In addition, there are many military benefits such as modern commissary, exchange and medical facilities in the Long Beach area which further lowers the cost of living in Long Beach.

SENATOR HATFIELD: What emphasis was given to community support of the Coast Guard in siting the medium endurance cutters?

ANSWER: Community support is certainly one of the elements considered in cutter homeporting decisions. The strength of community support is weighed with many other considerations including operational requirements, logistics, maintenance, housing, quality of life, availability of training and technical support, shore support requirements, and the costs involved.

The Coast Guard recognizes the strong community support it has traditionally received from the community of Coos Bay. Likewise, the community of Long Beach is also a strong supporter of the Coast Guard. Although community support does play a role in homeporting determinations, it must be given proportionate consideration with all pertinent factors.

SENATOR HATFIELD: If the U. S. Coast Guard does not locate any of the 270' WMECs in Coos Bay, what consideration will be given to relocating the USCG Cutter VENTUROUS from Long Beach, California to Coos Bay? Has any decision been made to relocate VENTUROUS?

ANSWER: The decision to locate the four 270' WMECs at Long

Beach, California also makes it necessary to relocate VENTUROUS. Commander, Pacific Area will be asked to prepare a planning proposal recommending homeport alternatives for VENTUROUS. No final decision has been made with regards to where VENTUROUS will be relocated.

BURLINGTON NORTHERN BRIDGE

SENATOR HATFIELD: Why was there no budget request in FY 1987 after having previously requested funding for the project in FY 1986?
ANSWER: Award of the Burlington Northern Bridge contract was delayed pending final legislative action on whether to require inclusion of Davis-Bacon Act requirements. With that now determined, contract award, by the railroad, is expected about September 1986. Based on that schedule, the current unobligated balances for this project will be sufficient to fund all work through FY 1987. Thus, no additional new funds are required until FY 1988.

SENATOR HATFIELD: When will the project be put out for bid?
ANSWER: The construction project will be put out for bid in August/September 1986.

SENATOR HATFIELD: What is the present projected cost of the bridge construction project?
ANSWER: The present projected cost of the entire project is $32.4 million.

SENATOR HATFIELD: How much of the $4.2 million will be spent in FY 1986?
ANSWER: No funds will actually be spent in FY 1986 due to the timing of the bid opening.

SENATOR HATFIELD: What will be required in FY 1987 to ensure that the project continues on its present construction schedule?
ANSWER: No funding will be required in FY 1987.

COQUILLE RIVER PATROL

SENATOR HATFIELD: Will the Coast Guard make available funds and personnel to continue the Coquille River Patrol during a four month period this summer? If not, why not?
ANSWER: At present, we plan to continue the Coquille River Patrol during the summer months of 1986. However, that decision assumes Coast Guard will receive a supplemental appropriation to meet operating expense requirements.

HELICOPTERS IN NEWPORT, OREGON

SENATOR HATFIELD: The City of Newport Oregon has undertaken a substantial effort to secure the stationing of a Coast Guard helicopter in the city to provide timely service to the fishermen of that area. As an indication of the city's commitment and in recognition of the tight federal budget, a total of 40 acres within the Airport Master Plan has been donated to the federal government for this purpose. In response to my correspondence on this matter, the Coast Guard has told me that it would cost $28.4 million to locate three helicopters as part of an air station to provide 24 hour service.

In the Coast Guard's April 2, 1986, letter to me, no breakdown was given to explain the $28.4 million figure. I would request the Coast Guard to fully explain this funding level and breakdown the various components of that overall figure.

ANSWER: The following table provides an estimated cost to construct, equip, operate and maintain a new three HH-65A helicopter air station at Newport, Oregon. This air station would be an independent, self sufficient unit capable of supporting a single helicopter "Bravo Zero" SAR readiness posture; that is, having a helicopter and crew on immediate standby 24 hours a day to respond to any Search and Rescue mission.

HH-65A Helicopter Air Station at Newport, Oregon Costs
($ in millions)

Non-Recurring Acquisition, Construction and Improvements Costs:	
Construct Air Station	$ 6.0
3 HH-65A Helicopters ($4.5 ea)	13.5
Aircraft Sparing/Initial Provisioning	4.1
Ground Support Equipment	.1
Subtotal Acquisition Costs	$ 23.7
Annual Recurring Operation Expense Costs:	
Personnel	
Aviation (46)	$ 1.4
Support (13)	.3
Facility Operation and Maintenance	.4
Aircraft Operation and Maintenance	2.6
Subtotal Annual Operating Expenses	$ 4.7
Total	$ 28.4

SENATOR HATFIELD: In that same letter, the Coast Guard stated that three helicopters were necessary to establish an air station. However, the city was not requesting a full air base, but simply a one helicopter attachment with supporting personnel. What would it cost to maintain a single helicopter with supporting personnel in Newport, Oregon? Does the Coast Guard currently maintain any other location where a single helicopter is detached with supporting personnel?

ANSWER: The following table provides an estimated cost to construct, equip, operate and maintain a single helicopter detachment at Newport, Oregon. This detachment would be a dependent unit, with its helicopter and crew permanently assigned to a neighboring, existing "parent" Coast Guard Air Station. An additional two helicopters will be required at this parent unit to ensure that a helicopter is available to support a single helicopter "Bravo Zero" Search and Rescue readiness posture at Newport, Oregon; that is, having a helicopter and crew on immediate standby 24 hours a day to respond to any Search and Rescue mission.

Single Helicopter Air Facility at Newport, Oregon Costs
($ in millions)

Non-Recurring Acquisition, Construction and Improvement Costs:	
Construct Air Facility	$ 3.5
Air Station Astoria Expansion/Renovation	.2
2 HH-65A Helicopters ($4.5 ea)	9.0
Aircraft Sparing/Initial Provisioning	2.7
Ground Support Equipment	.1
Subtotal Acquisition Costs	$ 15.5
Annual Recurring Operation Expense Costs	
Personnel	
Aviation (24)	$ .7
Support (3)	.1
Facility Operation and Maintenance	.2
Aircraft Operation and Maintenance	1.8
Subtotal Annual Operating Expenses	$ 2.8
Total	$ 18.3

At present, the Coast Guard only maintains a single helicopter detachment at one location--Air Facility Cordova, Alaska. This single HH-3F helicopter detachment is supported by seven officers and 28 enlisted permanently assigned to Air Station Kodiak, Alaska. Since 1984, this detachment has generally been operated from May through August, to provide enhanced Search and Rescue coverage during the fishing season.

SENATOR HATFIELD: The letter also states the Coast Guard attempts "to provide aircraft resources within 45 minutes or less flying time of all coastal areas." Yet, I am told the National Safety Board indicates a person can retain useful consciousness for only 30 to 60 minutes before he is no longer able to help himself. This is particularly a problem off the coast of Oregon where the salinity level is lower than anywhere else but Maine, plus the water is much colder than areas such as southern California, Gulf of Mexico and the Atlantic Coast. These factors require a person to work harder to stay afloat. This was evident in November, 1985, when three fishermen drowned off the coast of Oregon when the Coast Guard took 50 minutes to respond and within a hour of capsizing they had died. Why did the Coast Guard not respond within 45 minutes in this situation? Would a 45 minute response time been of any help in saving the lives of these fishermen? What efforts are being undertaken to lower this reponse time? Could you also provide for the record a log of calls received from the Newport area this past year and the time it took to respond from North Bend, Oregon or Astoria, Oregon?

ANSWER: Our goal is to locate air stations within 45 minutes flying time to scene. However, this does not include the alerting phase that normally requires 30 minutes to receive distress incident data, effectively process the information, direct appropriate Coast Guard action, and allow response crews time to get their boats or aircraft underway. The total response time on the case mentioned was 53 minutes: 13 minutes preflight after notification and 40 minutes actual flying time. Without a detailed medical evaluation, it is impossible to determine if a 45 minute response time would have saved lives. Survivability time in the marine environment under hypothermic conditions varies considerably with the physical condition of the person in the water. Air Stations Astoria and North Bend are scheduled to receive the faster HH-65A helicopter in 1987 which will improve response capabilities in the Newport area. During fiscal year 1985, aircraft from Air Stations Astoria or North Bend responded to 12 calls for assistance off the Oregon coast between Depoe Bay and Siuslaw River, six of which were false alarms. On three cases the aircraft was launched but recalled prior to arriving on scene because assistance was provided by surface units. Total response times, from Coast Guard notification of a distress until the first unit arrived on scene to render assistance, for the remaining three cases were: 5, 17 and 54 minutes. The 5 minute response case involved an aircraft already airborne on another mission that was diverted to a disabled vessel near Yaquina Bay.

SUBCOMMITTEE RECESS

Senator D'AMATO. This committee stands in recess. The next hearing will be April 23. Thank you very much.

[Whereupon, at 12:20 p.m., Wednesday, April 16, the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, April 23.]

DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, APRIL 23, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:13 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Mark Andrews (chairman) presiding.

Present: Senators Andrews, Kasten, D'Amato, and Lautenberg.

U.S. RAILWAY ASSOCIATION

STATEMENT OF STEPHEN BERGER, CHAIRMAN

CONRAIL

STATEMENT OF L. STANLEY CRANE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

ACCOMPANIED BY H.W. BROWN, SENIOR VICE PRESIDENT, FINANCE

INTRODUCTION OF WITNESSES

Senator ANDREWS. The subcommittee will come to order. This morning we will hear the appropriations request for the United States Railway Association [USRA]. We will hear from Mr. Stephen Berger, the Chairman of the United States Railway Association, and from Stanley Crane, the Chairman and Chief Executive Officer of Conrail.

Good to have you with us, gentlemen. Let me assure you that your statements will be included in the record as though every word were uttered, and you can summarize them in any way you feel will meet the needs.

As I understand it, Mr. Berger, you are the one who will go first. We have statements from Senators Kasten and Chiles.

[The statements follow:]

STATEMENT OF SENATOR ROBERT W. KASTEN, JR.

Mr. Chairman, I appreciate the opportunity to listen to the testimony of our witnesses this morning. Certainly when we think of these groups, especially Conrail, the Reagan administration's initiative to privatize some of the Government's roles comes to mind.

There is no doubt that we have a commitment to maintaining Conrail until a sale is approved. But I certainly feel that President Reagan is on the right track in his attempts to transfer responsibility of this railroad to the private sector where it belongs.

It is my hope that with the agreements we have worked out to give Midwestern regional railroads the rate and gateway protection that they need—namely through the Pressler-Kasten amendment—that the House will act in the near future on the Conrail sale.

STATEMENT OF SENATOR LAWTON CHILES

The proposed sale of Conrail to Norfolk Southern has been debated at great length here in the Senate. The Senate has approved a bill authorizing the sale, but I believe that the issues are far from settled. Significant unanswered questions remain with respect to the adequacy of the purchase price and the effect of the merger on rail competition and on shippers.

Given these unresolved problems, I welcome this opportunity to receive some updated views on these important elements of the Conrail sale. I look forward to hearing the testimony of this morning's witnesses.

STATEMENT OF STEPHEN BERGER

Mr. BERGER. I am delighted to be here, Mr. Chairman, particularly since it is snowing in New York.

Senator ANDREWS. It is amazing what snow drives south.

Mr. BERGER. Absolutely. Absolutely. And we are not going to take that one any further.

Senator ANDREWS. Does that mean that you are a fair weather——

Mr. BERGER. Absolutely. A fair weather person.

I am delighted to be here and I would like to take a moment to summarize my remarks. I should point out that you understand that I speak only for myself and not for the rest of the USRA Board.

Last year, there was a mutual frustration that made it difficult for me to give useful answers to some of the important and appropriate questions that this committee asked. Some of those questions are still on the table a year later.

What I attempted to do in my written statement is explain the events of last year in order to understand why so little apparent progress has been made. To put it simply, it has taken us all so long to reach a conclusion about the merits of the Norfolk Southern purchase of Conrail because of the pervasiveness of its consequences for third parties, both private and public.

For example, the administration's proposal to sell Conrail to Norfolk Southern is still not finalized in the sense that the divestitures required by the Justice Department to remedy some of the competitive problems have not been analyzed yet by either Justice or USRA.

That work goes on today and will be finished soon, but final answers are just not possible. If you wish, I can discuss some of the issues we are evaluating later on and what appear to be some of the key decision points. But as you know, we are not evaluating the first divestiture proposal.

We are evaluating, depending upon how you count, number three or four, and that is no one's fault. It reflects the very nature of the issues involved in the administration's proposal. The carriers involved have not dragged their feet, nor have the Justice Department and USRA. We have tried to respond diligently to congressional requests from both the Senate and the House to assess the information made available when it was available.

ANALYZING A MOVING TARGET

The fact is we have all been looking at a moving target because of the difficulty Norfolk Southern has had satisfying both the Justice criteria as well as the desire of the divestiture carriers, Guilford and the P&LE, to be protected from the perilous conditions that they would face after a Norfolk Southern and a Conrail merger.

Over the course of the year, USRA finished two major pieces of work while waiting for the divestiture plans to be finalized. Like the divestiture analysis, these studies were in response to Senator Metzenbaum and Congressman Dingell's requests subsequent to the administration's selection of Norfolk Southern.

First, the adminstration argued that the sale to Norfolk Southern was necessary to assure Conrail's viability. So we were asked to update our previous determinations regarding Conrail's prospects. I will merely say now that we found no specific or pervasive evidence to support the argument that Conrail in the future would depart from its present and future viability.

USRA has recently analyzed 1985 results. If you wish, I will be pleased to discuss how they fit into the patterns of previous years and what degree of further confidence they may provide for the future.

USRA DIVERSION STUDY

Second, we evaluated the impact of the enhanced market power of a combined Norfolk Southern/Conrail in terms of the traffic losses that would be experienced by other railroads. These studies are usually called diversion estimates. In some cases, it is far too mild a word for the phenomenon that would occur.

We also retained an investment banking firm, Lazard Freres, to assist in the financial analysis of the Norfolk Southern proposal.

After much work had been done last summer and fall, it was suspended until Norfolk Southern could modify its finances to reflect the ongoing revisions to the divestiture plans. Hopefully, we now believe this work will soon be finished, although Norfolk Southern is still supplying data to Lazard.

Support for and opposition to the Norfolk Southern purchase has been vigorous, even though the evidence is not yet available for an objective appraisal of some of its benefits and harms.

Despite the limitations on conclusions from final analysis of some issues, there are certain observations that ought to be made about the present debate.

WIDE IMPACT OF SALE

First, I would be very troubled if I thought that our protracted occupation with the divestitures led us to assume that the only competitive impact of the proposed sale to Norfolk Southern was on Guilford and the P&LE. There are impacts on shippers and on other railroads. These impacts constitute nothing less than a federally enacted redistribution of profits among various private corporations and their shareholders. Essentially, it represents a transfer to Norfolk Southern, one of the Nation's largest and strongest railroads, of revenues and profits from other railroads, including some that are far smaller and weaker such as the Grand Trunk, the ICG, and CNW. All are far weaker than either the Norfolk Southern or Conrail.

There are both short- and long-term impacts on distribution patterns. These are such that it may fairly be said that this transaction changes the shape of the rail map of the United States. Some opponents have called it a federally designed destabilization of the industry. One might wonder if that is a proper Government role, absent compelling need.

VIABILITY NOT IN DOUBT

Second, I am concerned that the sale to the Norfolk Southern is being justified by predictions that Conrail's viability is seriously in doubt. These predictions are contradicted by present facts and now with substantial history.

Private bids for Conrail which were rejected by the administration for a variety of reasons are ample testimony to the financial market's opinion on this subject. The Norfolk Southern or any purchaser questioning Conrail's viability is doing so merely as part of an effort to close on the transaction, to reduce the price and effect the deal. I accept that. That is a bargaining tool which is perfectly normal in commercial transactions.

But I cannot accept the question of viability as part of a serious public policy debate anymore. The viability issue is a buyer's way of working down the price, and that is important for us to understand in terms of discussing Conrail's future.

Perhaps, most importantly, I would note that if it were to have been the case that Conrail were authoritatively found not viable, then a sale to Norfolk Southern is a wrong solution to the problem. The Northeast Rail Service Act [NERSA] calls in such a case for a careful process that produces a balancing decision by which other railroads in the region are strengthened with as little impact on competitive service as is possible.

Thank you very much for the opportunity and I will be glad to answer any questions that you may have.

PREPARED STATEMENT

Senator ANDREWS. Thank you very much, Mr. Chairman. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF STEPHEN BERGER

I appreciate the opportunity to appear here today to report on the status of Conrail, the Conrail sale process, and the work of the Association. As the Committee is aware, USRA's request for $2.3 million of new budget authority was omitted from the President's budget for fiscal 1987. The Office of Management and Budget (OMB) also proposed the recission of $640,000 of the Association's fiscal 1986 funding, to be effective on March 31, 1986, based on the assumption that "The activities of the USRA will be completed in the middle of 1986 [and] the agency will have no function thereafter." March 31 has come and gone, and Congress has taken no action to effectuate the proposed recission since the Association is actively engaged in analyses of various documents and issues involved in the Administration's proposal to sell Conrail to Norfolk Southern Corporation.

I would like to start by recalling where events stood at this time last year, reviewing developments since then and USRA's participation in them, and summarizing where things stand now.

At the time of last year's hearing, three events had just occurred. In January of 1985, the Department of Justice advised the Secretary of Transportation that if Norfolk Southern were to be selected as the purchaser of Conrail, Justice would require that it pre-approve a divestiture plan by which other carriers would be allowed to substitute for the reduced competition that would exist in certain locations after Norfolk Southern acquired Conrail. Shortly thereafter, the Secretary of Transportation announced her support for the Norfolk Southern proposal, and executed a contract with Norfolk Southern which provided that divestitures satisfactory to the Justice Department would be arranged as a pre-condition to consummation of the transaction. Shortly thereafter, the Federal Railroad Administrator announced a plan for Norfolk Southern to divest properties to Guilford Transportation Industries and the Pittsburgh & Lake Erie Railroad

(P&LE) that was intended to meet the Justice Department requirement.

The Association staff promptly received a number of Congressional requests to study various aspects of the Secretary's proposal, and these inquiries were just commencing as last year's hearing of this Committee was held. The issues that USRA was asked to examine can be grouped into four major areas. First, we were asked to evaluate the traffic losses of other railroads to the enhanced market power of a combined Norfolk Southern/Conrail. Second, we were asked to conduct a financial analysis of the Norfolk Southern proposal, for which I retained the assistance of the investment banking firm Lazard Freres & Co. Third, we were asked to evaluate whether the proposed divestitures to P&LE and Guilford would adequately mitigate the anticompetitive effects identified by the Justice Department. Finally, because the Secretary had justified selecting Norfolk Southern by her view of Conrail's future prospects, USRA was asked to update its analyses, previously published in 1983, by which USRA's Board unanimously found Conrail viable. Under the procedures established by the Northeast Rail Service Act (NERSA), that 1983 conclusion required the preservation of Conrail as an entity and started the Secretary's search for a buyer of the Conrail stock held by the United States.

The Norfolk Southern divestiture agreements with P&LE and Guilford were not finalized until April and June, respectively. Guilford, P&LE, and Norfolk Southern then started to prepare detailed operating and financial plans and to provide other necessary information so that Justice and USRA could evaluate whether the divestiture carriers would provide meaningful competition in the problem markets, including whether they would be financially viable over the long term.

During this same Spring-Summer period, USRA met extensively with Norfolk Southern officials to review supporting documentation and assumptions for their plans for post-merger operations. One key focus of this work was the evaluation of Norfolk Southern estimates of the traffic it could take away from other railroads after it purchased Conrail. The Association also conducted similar reviews with those affected railroads of their estimates of loss due to the merger. USRA staff provided the Congress with a report in late July 1985 on these so-called "diversion studies." In summary, the staff found that Norfolk Southern estimates of traffic diversion understated the likely Norfolk Southern/Conrail gains that would be achieved at the expense of several other railroads, and that in certain cases, the affected carrier's harm would be substantial. As you probably know, the Interstate Commerce Commission also reviewed this one issue, at the request of Congressman Florio, and reached substantially the same conclusions.

In that same July 1985 report, USRA staff also provided the results of its re-examination of the Conrail viability question. No persuasive evidence was found to support the argument that Conrail in the future would depart from its present and recent viability. I won't elaborate on this subject in light of USRA's extensive previous reporting, but stand ready to answer any specific questions you may have. Certainly Conrail's 1985 performance strengthens USRA's earlier conclusions.

Following that report, USRA started its evaluation of the divestiture proposals. USRA staff conducted extensive research interviews with Guilford and P&LE to ascertain how they had developed their operating plans and underlying assumptions. During this same time, the consultant to Justice, R.L. Banks & Associates, was conducting a similar inquiry. Banks reported in mid-September that the information available to it was not adequate to conclude that the divestitures would meet the Justice Department's criteria, principally because unusual and ambitious assumptions underlying the carriers' plans had not been substantiated adequately. Just as USRA was preparing to release its own critique of the divestitures late in September, which in general agreed with the Banks conclusion, Justice announced that it had concluded that the divestiture plans did not meet its criteria for solving anticompetitive effects of the proposed sale to Norfolk Southern. A second divestiture plan, announced in principle by Norfolk Southern at that time, was never finalized, and an ongoing negotiation process commenced to satisfy Justice's concerns.

USRA's financial consultant, Lazard Freres, had commenced its financial evaluation of the Norfolk Southern proposal during this same August-September period. Norfolk Southern announced after the divestiture negotiations were reopened that its financial pro formas for operation of a merged Norfolk Southern/Conrail would have to be revised after the new divestiture plans were defined. The new Norfolk Southern data were not provided to Lazard until this February, and without substantial and important details and backup information that Lazard requires to complete its analysis. Lazard recently met with Norfolk Southern to discuss these needs, and was assured that an appropriate response will be forthcoming shortly.

Returning to the divestitures, Justice announced its preliminary approval of new agreements on November 19, 1985. Guilford and P&LE started revising their operating and financial plans. USRA received both plans in February, and commenced the process of meetings and review of backup documentation. The USRA staff is nearing completion of the Guilford plan review, perhaps resolving final data questions this week. While new final divestiture agreements were signed in February, key parts of the Guilford agreement with Norfolk Southern have yet to be negotiated, without which significant elements of the Justice criteria cannot be studied.

As to the P&LE, significant basic data needs have yet to be met by this carrier. USRA has ascertained that Justice and its consultants are in a similar status regarding P&LE.

By focusing on the Norfolk Southern proposal, my chronology so far has omitted some facts of which you are well aware. First, other offers to purchase the Conrail stock have been submitted by Morgan Stanley & Company and Allen & Company. Both purport to offer a higher price to the government than the Norfolk Southern proposal. These offers are intended essentially to take Conrail public through an offering process in which the initial investors underwrite a guaranteed return to the Government, and reserve the profit potential above that for themselves. The other event of note, of course, is the Senate's passage of legislation approving the Secretary's authority to sell Conrail to Norfolk Southern.

It is apparent that we still lack the data to answer many questions. However, many matters at least can be focused more clearly than a year ago.

Finally, if Conrail should not be sold in the near future, and the Congress continues USRA's Conrail monitoring and sale evaluation functions, then the Association will require an appropriation of $2.3 million for fiscal 1987. An appropriation of that magnitude will provide for approximately 22 full-time employees. I have discussed wind-down plans with USRA's officers in the event a sale occurs. The necessary actions would require six months to complete after a decision is made that USRA's functions are no longer required, and are more fully explained in our budget justification.

REMARKS OF SENATOR D'AMATO

Senator ANDREWS. We will next hear from Stanley Crane, the Chairman and Chief Executive Officer of Conrail.

Mr. Crane.

Senator D'AMATO. Mr. Chairman, I am wondering if you might yield for just a moment because I do have a Defense Appropriations Committee meeting. I would certainly like to say hello to Stanley and to Stephen Berger who is the chairman of our port, who has done a grand job, who has a fabulous record in terms of service to the public, and who I know is going to help provide the leadership that we need in terms of transit in our entire area.

I would ask that I be permitted to submit my statement as if read in the record.

PREPARED STATEMENT

Senator ANDREWS. Without objection, your opening statement will be included. We are glad to have you here, Senator.

[The statement follows:]

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, I appreciate this opportunity to offer my remarks with respect to the proposed fiscal year 1987 budgets for the U.S. Railway Association [USRA] and for the Consolidated Rail Corporation [Conrail]. I also welcome today's witnesses, Stephen Berger, Chairman of USRA, and L. Stanley Crane, Chairman and Chief Executive Officer of Conrail.

Based on the assumption that USRA would have completed all its responsibilities in connection with the sale of Conrail by mid-1986, the administration originally proposed no fiscal year 1987 funds for USRA. The administration also requested a rescission of $640,000 of USRA's fiscal year 1986 funding to be effective on March 31. Congress has taken no action to approve the rescission request and the sale of Conrail has not yet been completed.

USRA has now requested $2.3 million in new budget authority for fiscal year 1987. These funds would pay for 22 full-time employees to continue Conrail monitoring and sale evaluation functions. If Conrail is sold, USRA expects that 6 months would be required to wind down its operations.

Created as a temporary agency in 1973, USRA's job has been to oversee the formation of Conrail, oversee its performance, and act as a conduit for Federal aid. USRA is still actively involved in overseeing Conrail, although the railroad, a profitable corporation, no longer requires Federal aid.

In 1985, Conrail reported net income of $442 million. In 1984, Conrail's net income was $500 million; however, during the first half of 1984 Conrail was paying wages below industry standards according to agreements with labor. Management estimates that if Conrail had paid industry scale wages for all of 1984, net income for that year would have been about $435 million.

USRA was authorized by the Regional Rail Reorganization Act to borrow funds and to make loans to restructure and reorganize certain railroads in connection with the railroad bankruptcies that led to the formation of Conrail. No new loans are anticipated to be made in fiscal year 1987.

The sale of Conrail, as mandated by the Northeast Rail Services Act [NERSA] of 1981, is now being considered by the House of Representatives. The Senate has already approved the sale legislation, S. 638, by a vote of 54 to 39. Once the sale process is completed, no other functions are left for USRA to perform.

Thank you, Mr. Chairman, for this opportunity to offer my comments. I look forward to hearing from today's witnesses.

CONRAIL WILL BE VIABLE ENTITY

Senator ANDREWS. Quite candidly, I can join you in saluting our friend, Mr. Berger, who has just informed the committee and the Congress at large that Conrail will be a viable entity standing alone. I think that is a significant development which again shows his leadership.

Senator D'AMATO. If he carries that message in the House, maybe it will stay that way.

Mr. BERGER. I will carry the message, Senator; you carry the New York/New Jersey needs up here in the Senate. We will be delighted.

Senator ANDREWS. And I do not think, quite candidly, Stanley, that you minded getting that little message.

Mr. CRANE. Not at all. Not at all.

Senator ANDREWS. We will now hear from Stanley Crane, the Chairman and Chief Executive Officer of Conrail.

STATEMENT OF L. STANLEY CRANE

Mr. CRANE. Mr. Chairman and Senator D'Amato, if you permit me to take a little bit of nostalgia, this month of April represents the 10th anniversary since Conrail was formed April 1, 1976, and it also represents the 5th anniversary of my appearance before this committee. I must say that I remember very vividly appearing before you at that point in time back in 1981 when the company had just about exhausted the $3.3 billion which the committee had appropriated and authorized for the company to rebuild itself.

We had tried to put together a second plan called Final System Plan II, and we indicated that we thought we needed $300 million more to consummate that plan, plus certain other things which were finally enacted in the Northeast Rail Service Act.

One of the things that I am particularly proud of is that we did not take the last $20 million, as I recall, of the $3.3 billion and we never took a penny of the $300 million in 1981, but this committee's support and belief that the company could move forward was really quite key to that decision at that point in time.

Obviously, you appropriated the money. The Northeast Rail Service Act was indeed passed, and the company started to move ahead and we turned a profit in the month of May 1981 and went on to make a profit in that year of about $39 million.

The following year the profit was $171 million, then $353 million. In 1984, it was $500 million. In 1985, it was $442 million. And for the first 3 months of this year, we have reported a profit of $60 million, up about 9 percent, despite a not very robust economy.

Our cash at the present time is somewhere around $950 million. It goes up and down from time to time. There has been considerable challenge on the part of the Department of Transportation as to what is our cash balance. But in every case the external accountants have supported the numbers which we have reported.

All of the aforementioned in context, was presented to indicate that there is no question about the viability of the company. I, as the Chairman of Conrail, have opposed the Department of Transportation's negotiated transfer to the Norfolk Southern, because I do not believe it is in the best interests of the company, its employees, or the territory we serve.

I point out our opposition, together with the earnings that we have had and the amount of cash that we have, and I might add that our pension fund with the continued rise in the price of securities now is overfunded by $350 million, we have about $1.35 billion that the Norfolk Southern will acquire immediately for their $1.2 billion purchase price, which is certainly not a very bad deal, including the 6 billion dollars' worth of assets that they will get.

So, in conclusion, I really think that the price is too low, but much more importantly, that a public sale would serve the best interests of the public generally. I would like to credit the Congress and this committee with giving us the legislative tools needed to become the successful company that we are today.

It has been a difficult road, but with the benefit of the Staggers Act and the Northeast Rail Service Act and cooperation from our labor that has been unprecedented in the railroad industry, I believe we have not only solved the Northeast rail crisis, but we have created an asset of continuing value to the Northeast and Midwest economy and to the Nation as a whole.

As we look forward to the opportunity to continue our efforts as an independent, stand-alone company in the private sector, let me say our latest motto is: We are 10 years young and we have just begun.

Thank you.

PREPARED STATEMENT

Senator ANDREWS. Thank you very much, Mr. Crane. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF L. STANLEY CRANE

Mr. Chairman and members of the Subcommittee, I am very pleased to report that for the year 1985 Conrail once again reported solid earnings -- our fifth consecutive year of profitability. In 1985, we continued to add value to the company through our capital investments, cost efficiencies, and the continued high quality of our freight transportation services which attracted new customers to the railroad.

Despite reduced economic activity, which caused traffic and revenue declines for nearly all major railroads, Conrail reported net income for the year which was slightly better than 1984 net income when measured on a comparable basis.

For 1985, Conrail reported net income of $442 million on revenues of $3.2 billion. For 1984, we reported record net income of $500 million on revenues of $3.4 billion. However, in accordance with a 1981 labor agreement, Conrail's employees were paid wages below industry levels for the first six months of 1984. Wages were restored to industry levels effective July 1, 1984, and I am happy to report that by the end of 1985 all of our wage increase deferrals had been restored. Had Conrail paid industry scale wages for all of 1984, net income for that year would have been about $435 million.

Conrail's 1985 profit margin, the percent of revenues carried down to net income, was 14 percent -- ranking Conrail near the top in the railroad industry.

Conrail completed a $574 million capital investment program in 1985 -- $19 million higher than 1984's $555 million program. Thus, since 1981, we have cumulatively invested more than $2 billion of internally-generated funds in the railroad's physical plant. As a result of our continuing high level of capital spending, the quality of Conrail's main line track is second to none, and its locomotive and freight car out-of-service ratios are among the lowest in the industry.

Conrail's year-end 1985 cash balance increased to $910 million from $846 million at year-end 1984. This was achieved despite cash requirements in excess of $100 million to restore employee wages to industry levels retroactive to July 1, 1984; to extend customer credit terms as authorized by the ICC; and to fund capital expenditures in excess of those which had been budgeted.

Conrail's carloadings of freight declined 5.8 percent in 1985 compared with the prior year, reflecting the industry's economic experience in general. On a ton-mile basis, which is a volume measure encompassing both cargo weight and distance hauled, Conrail's traffic decreased 3.5 percent in 1985, compared with a 4.1 percent decline for Class I railroads.

Overall, Conrail's traffic base has shown stability in recent years -- notably in the automotive, intermodal, coal, and lumber segments. 1985 was the fourth consecutive year in which Conrail carried about 180 million tons of freight or more, and, presuming the full continuation of the marketing freedoms provided under the Staggers Act of 1980, we project continued traffic stability into the future.

Deregulation has provided the opportunity for innovative marketing, and Conrail has come to be recognized as a leader in bringing competition to our industry. Since 1980, for example, we have won more awards in the annual Modern Railroads Golden Freight Car competition for marketing and service excellence than any other railroad. In 1985, we won a Golden Freight Car Achievement Award for our pioneering Just-In-Time service for the automotive industry.

For the first quarter of 1986, our results continue to demonstrate the progress and stability of Conrail. Traffic tracked closely with levels of the first quarter of 1985, as measured by both carloadings (700,000 in 1986 vs. 707,000 in 1985) and ton-miles. First quarter net income was $60 million as compared with $55 million for the prior year's quarter. During the first quarter, Conrail's cash balance increased to

$939 million from $910 million at December 31, 1985. In addition, I would point out that as of March 31 Conrail's pension plan was overfunded by $360 million.

These last two numbers -- our cash balance and the value of overfunding of our pension plan assets -- bear a growing significance in connection with the Conrail sale process, and I would like to discuss them briefly for the record. Aside from the value added to Conrail in the past year as a result of our continuing capital programs, we continue, quarter by quarter, to accumulate cash in the bank.

In the event of a sale of Conrail to Norfolk Southern under the agreement made between the DOT and Norfolk Southern, these increasing assets are of real and immediate value to the buyer.

For example, if today were the closing date on a sale to Norfolk Southern, all of these cash assets would be acquired by Norfolk Southern, in accordance with the provisions of the DOT's Memorandum of Intent with Norfolk Southern. Thus, for its $1.2 billion agreed upon price of June 1984, Norfolk Southern in April 1986 would acquire the full $939 million cash balance and the $360 million in overfunded pension assets -- not to mention the hundreds of millions of dollars in tax benefits that Norfolk Southern receives (estimated by the Congressional Budget Office to be $500 million through 1991). If the $1.2 billion price was right in June 1984, then what of today?

In speaking of the Conrail of today, I believe our results certainly speak for themselves. Conrail is a successful, profitable freight railroad, which, quarter by passing quarter continues to prove its viability. Our 1985 and first quarter 1986 results should effectively put to rest any doubt as to viability.

As I conclude, I would credit the Congress and this committee for giving Conrail the legislative tools it needed to become the successful company that it is today. This month we are celebrating our tenth anniversary. It has been a difficult uphill road to reach this point. But with the benefit of the Staggers Rail Act of 1980, the Northeast Rail Service Act of 1981, and cooperation from labor that has been unprecedented in the railroad industry, we have not only solved the Northeast Rail Crisis, we have created an asset of continuing value to the Northeast-Midwest economy and to the nation as a whole.

We look forward to the opportunity to continue our efforts as an independent, stand alone company in the private sector. As we say at Conrail -- we are ten years young, and we have only just begun.

Thank you.

CONRAIL VIABILITY

Senator ANDREWS. Mr. Berger, in testimony before this committee last year, you characterized Conrail not as a sick corporation, but as a viable functioning railroad which has stability and which has demonstrated competence.

Does this continue to be an accurate characterization?

Mr. BERGER. I think so, Mr. Chairman. If one accurately looks at the record, particularly last year, in which the railroad industry suffered a downturn from 1984, one sees again that Conrail as a functioning company managed to control its business so that it continued to function profitably. It continued to make money. It responded to changes in its economic environment the way you would want a well-run company to respond.

Senator ANDREWS. Do you continue to believe that Conrail could function profitably as an independent entity for the foreseeable future?

Mr. BERGER. Yes, sir.

VALUE OF COMPANY

Senator ANDREWS. Last year, in response to questioning by this subcommittee, you stated that a fair sales price for Conrail is what a buyer is willing to pay. That is sort of like saying how much is up.

Given that at least two offers are on the table that exceed the $1.2 billion sale to the Norfolk Southern that was approved by the Senate, do you still feel that $1.2 billion is a fair sales price for Conrail?

Mr. BERGER. No, sir.

Senator ANDREWS. Why not?

Mr. BERGER. Well, using my own definition at this point, there is a market out there which seems to say that there is a higher price that can be paid. There are a variety of issues, and we are not yet done. One of the reasons we hired Lazard was to try to do an estimate of what, in fact, the value would be.

It is clear that there is an appetite for this company. There was an appetite for the purchase of Conrail demonstrated by some of the serious bidders who came in prior to the Department's selection, subsequent with the price put on the table by the Norfolk Southern. There have been constant escalations from people who have not been known to be in the charitable business, raising the price by hundreds of millions of dollars for the railroad.

By the way, as a side-bar issue, one should understand that whatever the value is to some of the other people who have put substantially more dollars on the table at this point than the Norfolk Southern, the value to the Norfolk Southern has to be even greater. That's because of the kind of fit that Conrail makes for the Norfolk Southern in terms of what it can produce for the Norfolk Southern bottom line.

There are a whole series of fits that are involved if you look at it in terms of rationalization. But beyond that, what it really does is it provides a kind of monopoly service on both ends of the system. Therefore it provides—and somebody has to evaluate that—some real financial benefit to the merged corporation which is probably greater than it might be to some of the other purchasers. And some of those other purchasers, at this point, are talking about substantially bigger numbers than the $1.2 billion price. That is not a reasonable price.

PUBLIC OFFERING

Senator ANDREWS. Has USRA estimated what the sales price of Conrail would be if the sale were done via public offering?

Mr. BERGER. No; but that is part of what we are asking Lazard to look at.

Senator ANDREWS. How long would it take for a public offering to be fully executed?

Mr. BERGER. That is hard to answer, Senator. It partly depends on how you structure the public offering. If one presumes that Conrail—let me just back up a second.

If one presumes that Conrail is viable, and I think that point has to be made clear. If one presumes that Conrail is a viable entity and can stand on its own, and the people who are offering to purchase it right now are making rational market decisions about future earnings, then if I may, coming to the first question you asked, there is no need on that basis for the Government to pay a discounted price in order to protect the future viability of the railroad.

If you answer the first question as Conrail being viable, then to pay a discounted price to a "deep pocket" is no longer necessary if, in fact, the railroad will stand on its own.

Second, it depends how you shape the public offering. It depends on what demands the Government, the administration, and the Congress put on a public offering. If you put the demand—and this has always bothered me—if you put a demand on the sale transaction that it be an instantaneous sale transaction, you immediately shape the kind of public offering you're going to have. Then there's the question of what—and I am not prepared to say—the market could absorb in a single offering.

Therefore, part of the question is how you want to shape the public offering. Is it necessary in the sale of Conrail to the private sector, which I believe is an appropriate thing to do, to say we have got to sell it all on day one?

If you say we are going to sell it all on day one, then what we now have in either the Morgan Stanley or the First Boston-Allen Co. offers, which I am not supporting either, may be the way to do it. If you are willing to layer your transactions, perhaps you might have a different pattern.

So the timing can only be answered by the conditions that the Government lays upon the transaction. But I do not think it has to take a long period of time.

STUDY ON DIVESTITURES

Senator ANDREWS. The proposed divestees who would preserve rail competition in certain midwestern markets under the Norfolk Southern/Conrail merger plan are both weathering difficult times at the moment. It was reported in February that USRA is conducting a study of the divestitures proposed by Norfolk Southern.

Has this study been completed?

Mr. BERGER. No, sir; it is not completed. It is one of the things I alluded to in my remarks. We are getting close. Part of the difficuty in completing the study is getting financial and operating plans from both of those railroads.

There are a couple of things that one could say, however, and I think it is fair to do so. First of all, as you characterized it, neither of the two railroads are strong financially. They are both at this point going through very serious testing on a variety of fronts. It is also clear that neither could survive in the face of a merger.

What we are trying to do is look at the business plans of both railroads and really to ask two questions. First, under their business plans, would they be financially viable, assuming the divestiture as it is presently proposed?

Second, Justice has raised a series of questions about why it wants the divestiture: certain counties, for example, that ought to be served in order to protect competition.

And so one of the second kinds of questions that the staff is working on is to try to peel down the onion. If you say the financial plan makes sense for the new carriers, does that financial plan also allow them to serve those counties which need the competitive service under Justice's request? Or, in fact, does the service into those counties become counterproductive in terms of their financial plan and make it difficult for them to survive?

Those are some of the kinds of questions we are trying to come to grips with, and we hope to be done with those studies very quickly. As I said, we have had moving targets because the plans keep changing under pressure from both the Justice Department and other players.

STUDY COMPLETION DATE

Senator ANDREWS. When do you anticipate you are going to have that study completed?

Mr. BERGER. I have to ask the staff.

Senator ANDREWS. That is the way it always works. That back row knows more.

Mr. BERGER. The Guilford study, I am told, can be done by mid-May. On the P&LE we still do not have basic financial data to make a judgment.

Senator ANDREWS. When those studies are completed, will you send copies of them to the subcommittee?

Mr. BERGER. Absolutely.

Senator ANDREWS. What studies, reports, or other investigations do you have underway presently?

Mr. BERGER. The major studies at this point are the divestiture studies.

Senator ANDREWS. For whom are they being conducted?

Mr. BERGER. We were asked for most of this material by both Members of the Senate and Members of the House. Senator Metzenbaum has requested a series of studies, Congressman Dingell and Congressman Florio have requested studies.

Senator ANDREWS. And those are the studies you are doing for Members of the Senate?

Mr. BERGER. Yes.

Senator ANDREWS. Has the USRA been asked to do a market evaluation of Conrail, other than the Lazard Freres study?

Mr. BERGER. Other than the financial study, no, sir.

Senator ANDREWS. Could you do a study? Do you have the in-house expertise?

Mr. BERGER. To answer which kinds of questions, sir?

Senator ANDREWS. Market evaluation. What it could be sold for if it was done through a stock offering.

Mr. BERGER. I am not sure we would end up doing much more than or produce anything much better than the Lazard study.

Senator ANDREWS. So you are going to depend on the Lazard study?

Mr. BERGER. That was the reason for hiring them. Obviously, I reserve the right to see what they produce.

CONGRESSMAN OXLEY'S LETTER

Senator ANDREWS. Finally, Chairman Berger, the Washington Post reported on February 4 that Congressman Oxley alleged in a January 29 letter to the inspector general of DOT that you may have compromised the U.S. Railway Association's impartiality by holding positions in organizations such as the Long Island Railroad and the Port Authority of New York and New Jersey that have a stake in the future of Conrail.

The USRA will be involved in the resolution of several issues, of course, before the disposition of Conrail is complete.

Can you comment on the alleged conflict of interest on your part as it affects the negotiations over the sale of Conrail?

Mr. BERGER. I would be delighted to, Mr. Chairman. First, I would like to submit for the record a response which has been made to the letter. I would also like to make a couple of comments.

First, every item which was raised in the Congressman's——

Senator ANDREWS. We will put that in the record at this point.

[The letter follows:]

LETTER FROM CARY W. DICKIESON, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, U.S. RAILWAY ASSOCIATION

Joseph J. Genovese
Acting Inspector General
Department of Transportation
400 Seventh Street, SW
Room 9210
Washington, D.C. 20590

March 31, 1986

Dear Mr. Genovese:

This is in response to our discussions in meetings with you and members of your investigative staff on March 20 and 21 regarding Congressman Michael G. Oxley's letter to you of January 29, 1986, concerning matters relating to present and prior business affiliations of Mr. Stephen Berger, Chairman of the United States Railway Association Board of Directors.

The United States Railway Association (Association) is an independent government corporation created by the Regional Rail Reorganization Act of 1973, as amended (Rail Act) (45 USCA 701 et. seq.), and incorporated under the Nonprofit Corporation Act of the District of Columbia (29 D.C. Code 1001 et. seq.). The Association is also a mixed-ownership government corporation under section 201 of the Government Corporation Control Act of 1948, as amended (31 USCA 9101 (2)), and as such is subject to the audit jurisdiction of the General Accounting Office.

The Inspector General Act of 1978 (IGA), as amended, provides in 5 USCA App. 3 section 3 for the creation of Offices of Inspector General in fifteen departments and agencies, including the Department of Transportation (DOT). Each such department and agency is identified in the IGA as an "establishment," thereby defining the boundaries within which the respective Inspectors General have enumerated audit and investigative responsibilities (5 USCA App. 3, section 11). The functions transferred to the respective Offices of Inspector General are contained in 5 USC App. 3 section 9. Those specifically transferred to your office are listed in subsection (H) of section 9 and do not include any functions from the Association or from organizations having audit or investigative responsibilities applicable to the Association. As an independent government corporation, the Association is not and never has been a part of the DOT "establishment," as defined in the IGA, and therefore is not within the audit and investigative powers conferred on your office by that law.

As we said repeatedly in our recent meetings, we are more than willing to discuss Mr. Berger's position as Chairman of the Board of Directors and his present and prior business affiliations. The questions raised in Mr. Oxley's letter all relate to facts that are a matter of public record and discussion, starting with Mr. Berger's confirmation hearings before the Senate Commerce Committee in 1980, and continuing through the latest amendments to the Rail Act in December, 1985 (PL 99-190, December 19, 1985). However, many of the questions asked by your staff related solely to the internal operations of the Association, and in particular to the preparation and publication of the Association Staff Report of July 29, 1985, "Conrail Sale Studies: Part I." Since we believe that such detailed questions concerning the internal operations of the Association are neither an appropriate subject for review by your office nor pertinent to the issues raised by Congressman Oxley, we declined to respond. 1/

1/ Your suggestion that the Secretary's membership on the Association Board of Directors authorizes you to audit or examine the records or activities of the Association is not supported by law. The Secretary's Board membership does not enlarge the powers conferred on you by the IGA. If the Secretary, as a member of the

You suggested that since some Association loans and financial assistance programs were funded by Association borrowings guaranteed by DOT, your office is authorized to conduct the review requested in Congressman Oxley's letter. Section 212 of the Rail Act authorizes the Association and the Secretary of Transportation to direct recipients of financial assistance provided under the Rail Act to maintain appropriate records, and permits the Association and the Secretary to audit or examine such records of such recipients. No issue raised in Congressman Oxley's letter, or by your questions to us, relates to any loan, obligation, or other arrangement for financial assistance under the Rail Act; and, of course, §212 authorizes DOT to examine only the records of recipients of such assistance, not the records of the Association.

Finally, although you did not make or endorse this argument in your discussions with us, Congressman Oxley's letter suggests that your authority under Section 6(a) (2) of the IGA to "make such investigations and reports relating to the administration of the programs and operations of the applicable establishment" as you judge necessary, permits your present investigation. Again, the Association is not a part of the DOT "establishment" as defined in the IGA. Moreover, the Northeast Rail Services Act (NERSA) clearly delineates the responsibilities of the Secretary and those of the Association in selling Conrail stock, so that no action of Mr. Berger or the Association in pursuit of their responsibilities under NERSA could possibly be considered as relating to the administration of programs or operations of the Department. Indeed, to accept the suggestion in Congressman Oxley's letter would mean reading the IGA as authorizing your office to conduct any examination it saw fit into the records, activities, or motives of any private citizen who chose to speak concerning a program of the Department.

Turning to the specific questions raised by Congressman Oxley, his letter suggests the possible applicability of the Standards of Ethical Conduct for Association Employees, 49 CFR Subletter A - Appendix, to a director of the Association, be it Mr. Berger or the Secretary of Transportation. Mr. Berger, since his appointment and confirmation, has served on a part-time basis 2/ as the Chairman of the Board of Directors of the Association. As a member of the Board, Mr. Berger's outside activities and affiliations, like those of all other Association directors, are governed by the provisions of Section 201 of the Rail Act, pursuant to which Association directors are appointed. A director under general corporate law is not an employee of the corporation. Since the incorporation of the Association in 1974, the Standards of Conduct for Association Employees have never been considered to apply, nor have they ever been applied, to any of the individuals who have served as members of the Association Board.

At the time of his nomination and confirmation in 1980, Mr. Berger held positions as a professor at New York University's Graduate School of Public Administration, a member of the Board of

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Association Board, should desire to have an audit performed by you of the Association, the procedures for doing so are spelled out in the Association Board Resolution of July 29, 1976, which provides "that no member of the Board of Directors is to undertake an independent audit of the Association without the approval of the Board." If such approval were sought and obtained, your review would be at the direction of the Association Board, and not pursuant to the IGA.

2/ Of the Association's three chairmen, the first served full-time and the last two on a part-time basis. Under section 201(d)(2) of the Rail Act, Mr. Berger is entitled to a per diem payment for each day he is engaged in the actual performance of his duties as Association chairman. Mr. Berger has reported 60 days or less service in each calendar year since his appointment.

the New York State Metropolitan Transportation Authority (MTA) and chairman of its Finance Committee, and president of Stephen Berger Associates, Inc., a management consulting firm specializing in public and municipal finance. 3/ As a member of the Board of MTA, Mr. Berger was also a director of the Long Island Railroad (LIRR), a subsidiary corporation of MTA. Then and now MTA conducts extensive commuter passenger rail operations in its own name and through the LIRR. 4/ All of the above affiliations were matters of public record and discussion during the nomination and confirmation process.

In 1981, Mr. Berger was employed by Oppenheimer & Co., Inc., as Director of Corporate Development. In May 1981, Mr. Berger learned that Oppenheimer & Co., Inc., through its trading department, held securities of the Reading Railroad Company, the Erie Lackawanna Railway Company, and the Central Railroad Company of New Jersey. The bankrupt estates of those entities were parties to the Valuation Litigation managed by the Association to determine the value of the properties conveyed by the Association to Conrail in April 1976. Mr. Berger took steps both at the Association and Oppenheimer & Co., Inc., to recuse himself from matters involving Reading, Erie Lackawanna, and Central of New Jersey, and so advised the Association Board (See Attachment II).

In August 1981, NERSA reconstituted the Board of Directors of the Association and amended section 201 of the Rail Act to provide that the Chairman of the Board of Directors of the Association may not have any employment or direct financial relationship with any railroad. NERSA also designated Mr. Berger as Chairman of the newly restructured Board of Directors of the Association through December 31, 1983. During the drafting of the legislation that resulted in the passage of NERSA, Mr. Berger's associations with MTA and Oppenheimer & Co, Inc., were a matter of public knowledge and understood by the participants in the process, including the committees of Congress and the Department of Transportation.

In early 1983, Mr. Berger left Oppenheimer & Co. and joined the investment banking firm of Odyssey Partners. His employment with Odyssey Partners involved no financial participation or compensation of any sort on his part arising from Odyssey Partners' interest in the Chicago Milwaukee Corporation which is a stockholder of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. Nevertheless, the staff of the Association was advised not to circulate any documents or information regarding the Chicago Milwaukee Corporation or the Milwaukee Railroad to Mr. Berger. In July 1985, Senator Slade Gorton of Washington requested the Association's assistance in determining the value of an abandoned rail line on the Olympic Peninsula owned by the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. Upon learning of Senator Gorton's request, Mr. Berger recused himself from participation in the Association's staff response (See Attachment III).

3/ Although not mentioned in Congressman Oxley's letter, your staff asked several questions concerning any relationship between Mr. Berger and Lazard Freres & Co. Neither at the time of his appointment and confirmation, nor at any time before or since, has Mr. Berger been employed by, a partner of, or had any financial interest in Lazard Freres & Co. Prior to 1981, Stephen Berger Associates, Inc. was a consultant to Lazard Freres on some public and municipal finance projects. As discussed in the July 29, 1985 Staff Report, the Association has retained Lazard Freres as financial advisor to assist in our review of financial issues associated with the Conrail sale proposals. Mr. Berger's memorandum to the Association Board concerning Lazard's engagement is enclosed as Attachment I.

4/ Freight operations of LIRR presently account for less than 3% of LIRR revenues. In addition to its primary interchange with Conrail, LIRR also interchanges freight traffic with the Boston & Maine Railroad and the New York Cross-Harbor Railroad.

In December 1983, Mr. Berger's term as Chairman of the Board was extended by law for an additional period of two years (P.L. 98-181). Again his affiliations with MTA and Odyssey Partners were a matter of public record.

In October 1985, Mr. Berger was named Executive Director of the Port Authority of New York and New Jersey (Port Authority). At that time Mr. Berger terminated his relationships with MTA, Odyssey Partners, and New York University. Mr. Berger was aware that the Port Authority had expressed views concerning the proposed sale of Conrail. As a result, upon becoming Executive Director of the Port Authority, Mr. Berger advised the General Counsel of the Port Authority that he would not participate in formulating or presenting the views of the Port Authority concerning proposals for the sale of Conrail.

On December 19, 1985, Mr. Berger's term as Chairman of the Association's Board of Directors was again extended for two additional years (PL 99-190). In addition, Section 201(d)(2) of the Rail Act was amended to provide that the Chairman of the Association's Board of Directors may not have any employment or other direct financial relationship with any freight railroad, in order to foreclose any appearance of conflict of interest which might arise from the fact that the Executive Director of the Port Authority is also ex officio the President of Port Authority Trans Hudson Corp. (PATH), a Port Authority subsidiary. PATH is an urban mass transit agency which operates subway lines between New York and New Jersey, and which fits within the Interstate Commerce Act (and therefore the Rail Act) definition of a "railroad." Thus, the Executive Director of the Port Authority, as ex officio President of PATH, might be considered an employee of a "railroad" and in conflict with the previous provisions of section 201(d)(2) of the Rail Act. As stated by Senator Lautenberg before the U.S. Senate (Congressional Record, October 23, 1985, page S 13851), elimination of this potential conflict of interest was the objective of his proposed amendment, which became law on December 19, 1985.

Thus, throughout his service as the Association's part-time Chairman, Mr. Berger has been completely open and candid concerning his business affiliations. These affiliations are known to Congress, and during the Association's authorization and appropriation hearings members frequently ask Mr. Berger for information which draws upon his expertise and experience in transportation, public finance and administration, and investment banking. These qualifications appear to be considered by Congress as assets to Mr. Berger's performance of his duties as Chairman, rather than impediments.

Sincerely,

cc: Honorable Michael G. Oxley

ATTACHMENT I

August 31, 1984

Dear Fellow Board Member:

At our last meeting I mentioned that it would be desirable for USRA to contract for some outside professional assistance to enable USRA to respond promptly to whatever Congressional request for analysis ultimately emerges, thereby facilitating and not hindering the sales process. Events since then have confirmed my view that such additional assistance is necessary. Therefore, I have had USRA engage Lazard Freres & Co. to render financial advice concerning any review by USRA of proposals to sell Conrail. While the agreement assures that Lazard's services will be available to USRA, the agreement does not formally commence, and USRA does not assume any financial obligation, unless and until the Department of Transportation recommends a transaction for selling the Conrail shares. A copy of the engagement letter is attached.

The Lazard team will be led by Frank G. Zarb and Eugene J. Keilin, General Partners of the firm. Both Mr. Zarb and Mr. Keilin specialize in advising corporations, governments, and government agencies. Mr. Zarb was formerly Assistant to President Ford and Administrator of the Federal Energy Administration. He currently serves as a member of the Presidential Advisory Committee on Federal Pay and a member of the United States Investment Policy Advisory Committee. Mr. Keilin was formerly Executive Director of the Municipal Assistance Corporation, (MAC), the New York State agency created to deal with the fiscal crisis in New York City, and is currently a Director of the Weirton Steel Corporation, the largest employee-owned company in the United States.

I believe the retention of Lazard should allay the concerns expressed at our appropriations hearings as to USRA's capacity to provide a timely and informative response to a proposed sale transaction.

Sincerely,

Attachment

ATTACHMENT II

Minutes of Meeting
June 4, 1981

Mr. Lawrence J. Blume, Department of the Treasury, and
Various other staff personnel of the Department of the Treasury,
the Department of Transportation, the Interstate Commerce
Commission and the Association.

Portion of the Meeting Closed to the Public

The meeting was closed pursuant to the certification of the Executive Vice President-Law and majority vote of the Board pursuant to Public Law 94-409.

Executive Closed Session

Internal Personnel Matters

Mr. Berger reported to the Board on his new association with Oppenheimer & Co., Inc. and requested that the following correspondence to the Corporate Secretary be made part of the minutes of the meeting:

Stephen Berger

1050 Park Avenue
New York, New York 10028
Telephone: (212)876-7788

May 11, 1981

MEMORANDUM FOR MR. PETER J. GALLAGHER, SECRETARY,
UNITED STATES RAILWAY ASSOCIATION

FROM: STEPHEN BERGER

The purpose of this memorandum is to advise the Association and the Board of Directors formally of an employment arrangement that I have entered into with Oppenheimer & Co., Inc. ("Oppenheimer"). Pursuant to this arrangement, I am employed by Oppenheimer for a fixed salary, and I may receive additional compensation determined by the particular matters on which I work.

As you will note from the attached copy of a letter dated May 11 to Oppenheimer, Oppenheimer owns some securities of the Erie Lackawanna Railway Company ("EL") and Reading Company ("Reading"). As noted in my letter, they intend in the near future to dispose of the EL securities to an entity in which they do not have any interest.

In order to prevent any conflict-of-interest from arising out of my arrangement with Oppenheimer and my position as Chairman of the Association, I have informally disqualified myself from any Reading claim or matter before the Association. I request that this action be formally noted for the Board.

In addition, I have reached certain understandings with

Oppenheimer as described in the attached letter. I would appreciate it if you would bring those understandings to the Board's attention.

Attachment

Stephen Berger
Associates, Inc.

1050 Park Avenue
New York, New York 10028
Telephone: (212)876-7788

Oppenheimer & Co., Inc.
One New York Plaza
New York, New York 10004

May 11, 1981

The purpose of this letter is to note for the record certain understandings that we have reached concerning my employment by Oppenheimer & Co., Inc. These understandings arise because of my employment by Oppenheimer & Co., Inc. ("Oppenheimer") at a time when I am Chairman of the United States Railway Association ("Association").

The Association, as you know, has major responsibility with respect to the defense of claims under Sections 303(c) and 306 of the Regional Rail Reorganization Act of 1973, and a significant role in planning the structure of rail service in the northeast region of the United States. The principal claimants under Sections 303(c) and 306 of the Act are Ann Arbor Railroad Company, Central Jersey Industries, Inc., Erie Lackawanna Railway Company ("EL"), Lehigh and New England, Lehigh Valley Railroad Company and Reading Company ("Reading").

You have advised me that Oppenheimer has investments of a relatively small value in EL securities. You have also advised me that in the near future Oppenheimer will dispose of these securities to an entity in which Oppenheimer has no financial interest. You have also advised me that Oppenheimer owns Reading securities of approximately $600,000 in principal amount. Finally, it is my understanding that Oppenheimer wishes to be free to render investment banking advice to any of the claimants should it be called upon to do so.

In light of the foregoing, I have requested and Oppenheimer has agreed to the following arrangements:

1. In order to prevent any possible inadvertent disclosure of information I may have concerning these claimants, I have requested that you advise Oppenheimer's officers, directors and employees that they should not discuss with me or in my presence any matter affecting any of the Section 303(c) and 306 claimants. I have also requested that Oppenheimer's officers, directors, and employees not route to me or call to my attention any papers concerning any of these claimants except publicly available materials such as annual reports.

2. I will not work on any matter for Oppenheimer in which any of the Section 303(c) or 306 claimants has a financial interest.

3. Finally, you will promptly advise me: (a) if Oppenheimer or any of its subsidiaries should dispose of the interests presently held in EL and Reading securities; (b) if Oppenheimer or any of its subsidiaries should acquire an interest in any of the other Section 303(c) or 305 claimants; or (c) if Oppenheimer or any of its subsidiaries should be asked to render services to any of the claimants.

This letter is being brought to the attention of the Board of Directors of the Association and, as that Board has been advised, I have disqualified myself from any Reading claim or matter before the Association because of the interests held by Oppenheimer.

Sincerely yours,

Stephen Berger

June 3,1981

MEMORANDUM FOR MR. PETER J. GALLAGHER, SECRETARY,
UNITED STATES RAILWAY ASSOCIATION

FROM: STEPHEN BERGER

The purpose of this memorandum is to supplement my memorandum of May 11, 1981, in which I advised the Association and the Board of Directors of an employment arrangement that I have entered into with Oppenheimer & Co., Inc., (Oppenheimer).

Upon further discussions with Oppenheimer, I have been advised that Oppenheimer's Trading Department from time to time engages in market activities involving the securities of the Erie Lackawanna Railway Company (EL). In the course of such activities, Oppenheimer from time to time acquires and holds ownership interests in EL securities.

While these ownership interests are small, counsel has advised that Section 208(a) of Title 18 of the United States Code does not provide an exception for insubstantial holdings. Counsel also questioned the applicability of Section 208(a) to the Association. However, to avoid any conflict or possible appearance of conflict arising out of my arrangement with Oppenheimer and my position as Chairman of the Association, I have disqualified myself from any discussion, decision or other participation in any EL claim or matter before the Association. I request that this action be formally noted for the Board.

Mr. Berger excused himself from the meeting while the Board discussed his association with Oppenheimer & Co., Inc., and Mr.

Dickieson made a report on the litigation. Mr. Berger designated Mr. Salmon to act as chairman during his absence.

Litigation Report

Mr. Dickieson made a report to the Board regarding the litigation and recommended amendment of the Board's resolution of March 21, 1981 regarding the litigation. Upon recommendation of Mr. Dickieson and the Finance and Valuation Advisory Committee, the Board, on motion duly made by Mr. Sender, seconded by Mr. Blatz and discussed, approved the amendment of the March 21, 1981 Board resolution.

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and Norristown Railroad Company pursuant to section 306(c)(1) of the Regional Rail Reorganization Act of 1973, as amended.

Mr. Berger requested that the following correspondence with the Corporate Secretary regarding Central Jersey Industries, Inc., (Central Railroad Company of New Jersey) be included in the minutes of the meeting.

Stephen Berger
1050 Park Avenue
New York, New York 10028
Telephone: (212)876-7788

September 10, 1981

Mr. Peter J. Gallagher
Corporate Secretary
955 L'Enfant Plaza North, S.W.
Washington, D. C. 20595

Dear Mr. Gallagher:

The purpose of this letter is to supplement my correspondence of May 11 and June 13, 1981, regarding my employment arrangement with Oppenheimer & Co. (Oppenheimer).

I have been advised that Oppenheimer's Trading Department has undertaken to create markets for and take ownership and other positions in the securities of Central Jersey Industries, Inc. (the successor to the Central Railroad Company of New Jersey). I am also advised that such holdings and positions will not be substantial.

Although counsel continues to question the applicability of Section 208(a) of Title 18 of the United States Code to the Association, they have counseled that section 208(a) does not provide an exception for insubstantial holdings. Therefore, to avoid any conflict or possible appearance of conflict arising out of my arrangement with Oppenheimer and my position as Chairman of the Association, I have disqualified myself from any discussion or other participation in any Central Jersey Industries, Inc., claim or matter before the Association.

I request that this action be formally noted for the Board.

Sincerely,

ATTACHMENT III

July 9, 1985

MEMORANDUM

To: Cary W. Dickieson, Executive Vice President

From: Stephen Berger, Chairman

I received a copy of the letter dated July 2, 1985 from Senator Gorton of Washington requesting the assistance and expertise of the Association in determining the value of the assets of an abandoned line of railroad on the Olympic Peninsula in the State of Washington owned by the Chicago, Milwaukee, St. Paul and Pacific Railroad Company.

As you are aware, Odyssey Partners, with whom I have an employment relationship, is part of a group of investors which holds a significant investment in the Chicago Milwaukee Corporation, which in turn is the stockholder of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. As I have previously informed you, my employment arrangements with Odyssey Partners provide that I have no financial participation of any sort arising from Odyssey Partners' interest in the Chicago Milwaukee Corporation. The staff of the Association has also been instructed not to circulate documents or any other information regarding the Milwaukee to me.

To avoid the appearance of any conflict of interest arising from my relationship to Odyssey and its investment in Chicago Milwaukee, I will not participate in or review any deliberations or decisions of the staff of the Association in responding to Senator Gorton's letter and request that documentation, reports or other information relating to any action by the staff not be transmitted or communicated to me prior to being publically released.

Mr. Stephen Berger
Chairman
United States Railway Association
955 L'Enfant Plaza
Washington, D.C. 20595

July 2, 1985

Dear Mr. Berger:

I am writing to request the assistance and the expertise of the United States Railway Association on a matter of great importance to the economy of western Washington State.

In 1980 the Chicago, Milwaukee, St. Paul and Pacific

Railroad Company ceased operations on a 50+ mile rail line between Port Angeles and Port Townsend, Washington. After receiving abandonment authority for the line from the Interstate Commerce Commission, the Milwaukee Railroad entered into a lease agreement, with the option to buy, with two individuals who sought to continue rail service on the line. Unfortunately, this effort failed and the new operators went bankrupt last year. Once again, the Olympic Peninsula was left without an operating rail system.

The Peninsula Development Association, a non-profit corporation composed of representatives of various municipal and other governmental entities on the Olympic Peninsula, is now interested in purchasing the line from the Milwaukee Railroad and leasing it to a viable short line operator. However, before the Association can enter into negotiations with the Milwaukee Railroad it requires a study which will determine the value of the assets of the line. The study would not include the value of the land on which the line runs.

In an effort to assist the Association in gaining this information I request that USRA conduct this study and report its findings to the Association and to my office. If this action can be accomplished within the bounds of your responsibility and resources, it would greatly enhance the effort to return rail service to the Olympic Peninsula. It is my understanding that the Association will be providing your office with technical details for this request. Because time is very important -- the Milwaukee Railroad can begin pulling up track and selling it for scrap at any time -- please contact my office as soon as possible with your response. I look forward to working with you and the Association to accomplish this task.

Thank you for your attention to this request.

Sincerely,

SLADE GORTON
United States Senator

MR. BERGER'S COMMENTS ON CONGRESSMAN OXLEY'S LETTER

Mr. BERGER. Every item that was raised by the Congressman has been part of the public record from the day I took over at USRA. Just to reflect, the USRA job as chairman is obviously a part-time job and it is not a staff job.

When I was confirmed by the Senate originally and in my appearances before committees in both the House and the Senate, my membership then on the Board of the Metropolitan Transportation Authority was made very clear. That Board also had jurisdiction over the Long Island Railroad, then a portion of the Conrail commuter lines.

It was not only made clear, but it was an item of value that my understanding of the commuter line problem was an assistance in the early days in helping negotiate transactions which were deemed to be fair on the part of both the Federal Government and the commuter lines for the transfer of those lines to local jurisdictions.

It was pointed out in testimony during the year when that took place that my understanding and the role I played was helpful in enabling Conrail to make the divestiture, in allowing the local railroads to take over service.

PORT AUTHORITY POSITION

Second, another point was made about my present new position as executive director of the Port Authority of New York and New Jersey. The Port Authority of New York and New Jersey had taken a position on the Conrail sale prior to my arriving at the port. Because of my role as Chairman of the United States Railway Association, I recused myself from all deliberations at the port. Even though the port already had a position, I recused myself from all such activity.

The general counsel of the port authority is in charge of all Conrail matters and this was taken up by the board of the port authority, the board of commissioners, and the audit committee. It is part of the public record.

Last, the question was raised about firms in which I had a part as an investment banker. I pointed out, and it is part of the public record, that I had no financial interest in any of the firms I have been in in the years since I have been Chairman of USRA, or in any transactions relating to any other members of the firms' railroad activities. I had no financial interest, got no financial gain.

Those are the facts, sir. But if I may, can I carry forward one moment?

Senator ANDREWS. Surely.

Mr. BERGER. I must say in thinking about the letter, and the movement of the letter into the press, that I am disturbed because I think the issue here has been the independent voice of USRA. The independent voice of USRA has been its staff, by and large. The professional staff was gathered before I got there from people in the railroad industry and the financial community whose function has been primarily to provide independent judgment to the Senate and the House on issues of concern to them.

Frankly, I felt that the way the question of my role was handled was really an effort to remove and to undermine that independent voice and the capacity of the staff to function. If I were cynical, I would consider this a political hatchet job. But obviously I am not cynical and, therefore, it could not be that.

But other than that, every item that was raised has been a matter of public record for more than 5 years. Frankly, any effort to impugn the staff of the USRA or undermine their judgment is something I am prepared to defend publicly, privately, and in any form in which it comes up. I thank you for this opportunity.

FULL COOPERATION OF USRA

Senator ANDREWS. Has USRA cooperated fully with the DOT inspector general in the conduct of this investigation?

Mr. BERGER. To the best of my knowledge, we have. The staff of the USRA has supplied the inspector general with the material he has requested. The position, both in this instance and in previous times, is that USRA is an independent agency. I do not believe—and legal counsel does not believe—that we fall under their jurisdiction. On the other hand, we have supplied them with all the records and the documentation for their fishing expedition.

FINANCIAL VIABILITY OF CONRAIL

Senator ANDREWS. Mr. Crane, you have repeatedly stated your belief that Conrail can be financially viable in the long run as an independent entity.

On what do you base that belief?

Mr. CRANE. I would base it on any indices people would use including the stability of our traffic. It has flattened out and remained fairly stable over the last 4 years. Our past earnings certainly speak for themselves. We have produced projected earnings that indicate we think we are going to continue to be viable.

Our past and projected cash-flow is very solid, particularly after fixed charges and capital requirements, and certainly our position in the industry as recorded by various industry publications in connection with our price competitiveness in the marketing area certainly indicate that we are a very advanced company from that standpoint, which is a benefit to the customers we serve, and certainly we have demonstrated our ability to withstand cyclic changes in the general economic environment.

Senator ANDREWS. Now, Mr. Crane, you say that your freight tonnage has flattened out. Last year during our hearing, Deputy Secretary Burnley introduced into the record—it was in our Senate Report 99-336, part 2, page 402—a chart depicting Conrail's annual freight tonnage that showed a definite downward trend.

Do you think that Conrail's traffic base is declining? You just said it was not, and I just wanted to reevaluate that.

Mr. CRANE. Let me say, Mr. Chairman, that that chart went back to the time when Conrail was formed in 1976. There is no question there was a downward trend through the year of 1981. I have the actual numbers here in front of me.

Senator ANDREWS. That was the period when you were divesting miles of track.

Mr. CRANE. Not only that, but that was during the period of time prior to the Staggers Act and prior to the Northeast Rail Service Act when we were able to really rationalize the railroad properly.

Since the passage of those two acts and since we were able to move forward, our tonnage has been 179 million tons in 1982, 183 million in 1983, 192 million in 1984, and 181 million in 1985.

Now, everyone knows the year of 1985 was not quite as strong as the year of 1984. We have a graph here which I would be delighted to introduce into the record if I may, which plots the tonnage from 1982 to

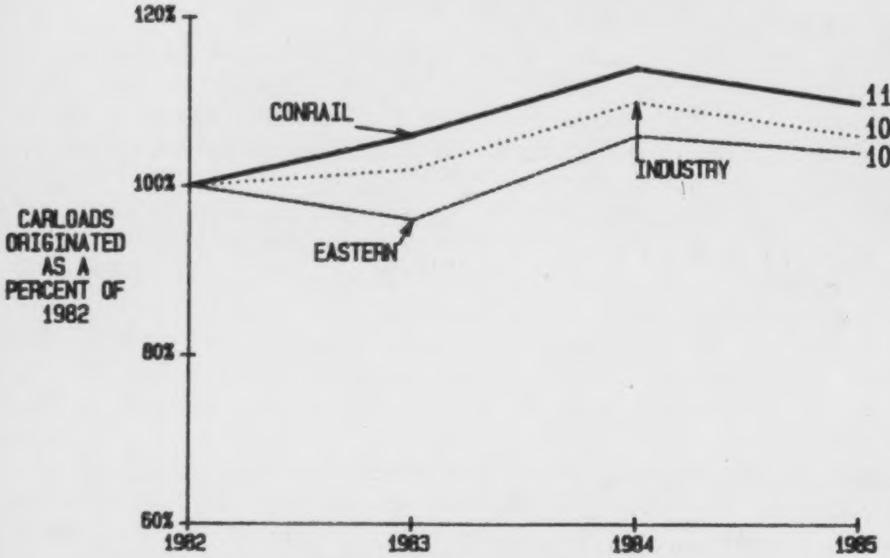
1985 and compares the total carloads originated in the Eastern District versus the industry, and if anything, Conrail is a little bit better there.

I would like your permission to put that into the record if I may.

Senator Andrews. We will put that into the record at this point, because obviously those are current statistics and they are the ones that do control in this instance.

[The graph follows:]

CHANGE IN TOTAL CARLOADS ORIGINATED -- 1982-1985
CONRAIL, EASTERN DISTRICT, AND INDUSTRY
DATA FROM CS 54A REPORT



MEASURE OF PROFITABILITY OF CONRAIL

Senator Andrews. Mr. Berger.

Mr. Berger. Mr. Chairman, if I may, a measurement of tonnage is not a fair measurement of the profitability of the railroad. We have had enough examples of where you lose it on the unit and you cannot make it up on the volume.

The measurement of Conrail has been its success of managing its business and, even at lower tonnage, being a more productive and more profitable railroad.

So I think looking for gross numbers of tonnage is a totally misleading way of approaching the profitability of any railroad.

Senator Andrews. But the fact is, compared to what Mr. Burnley said, Mr. Crane's statement just now shows that the tonnage has indeed stabilized.

Mr. Berger. Yes, sir.

Senator Andrews. Tonnage stayed on a level playing field, if you want to use that great terminology, through the period of the good earnings of Conrail. And only if you look back at a totally different Conrail, different miles of track and all the rest, do you get that impression that Mr. Burnley was trying to leave with us.

Mr. Crane, the administration contends that the divestiture plans involving Guilford and Pittsburgh & Lake Erie can provide the same competition that now exists between Conrail and Norfolk Southern.

Do you agree?

Mr. CRANE. Absolutely not, Mr. Chairman. Both companies are essentially corporate corpses right now. In the case of the Guilford industry, that company is wracked by serious labor dissension now which is seriously affecting their business as reported by the AAR weekly carloading data.

In the case of the P&LE, the numbers that we have put together from public sources clearly indicate the company has had cumulative losses for the last 3 or 4 years. There is no possibility that under a divestiture plan, they can provide any adequate type of competition to the giant of Norfolk Southern/Conrail combined; and on top of that, there is serious doubt as to whether they would have any continued economic viability themselves.

We have indeed prepared two analyses of these, Mr. Chairman, which let me say if you would prefer, I would be glad to place in the record for the committee.

Senator ANDREWS. How detailed or how many pages are these analyses?

Mr. CRANE. How detailed are they? They are detailed on the basis of the best information——

Senator ANDREWS. No; I am not talking about how detailed. I am talking about how many gross pages. I am thinking about Gramm-Rudman and our printing costs.

Mr. CRANE. How many gross pages? I will have to take a look at it.

Senator ANDREWS. I am looking at about 2 inches.

Mr. CRANE. Not quite that thick, but they are about a quarter of an inch thick, Mr. Chairman.

Senator ANDREWS. I think that we will have the staff look at them and we may well put appropriate parts in the record, and of course they will be filed with the committee so anyone who wants to examine them can.

Mr. CRANE. At your pleasure, Mr. Chairman.

Senator ANDREWS. I think that might be the more cost-effective way. Since you have done such a great job of becoming cost-effective at Conrail, we would not want to move away from your example.

Mr. CRANE. And I certainly would not have that happen.

Senator ANDREWS. No; I knew you would say that.

[CLERK'S NOTE.—The reports are on file with the subcommittee.]

DESCRIPTION OF SALE PROCESS

Senator ANDREWS. Now, as you know, further decisions on the sale now rest in the House. The sale process may best be described as curious. In what ways has this sale process differed from that employed in other rail mergers?

Mr. CRANE. Well, in every other rail merger that I have been aware of, Mr. Chairman, there has been a complete public investigation of the financial operating plans, detailed operating plans, that is the manner in which the combined railroads are going to be operated.

None of that has come into the public sector. In other words, if you have a hearing before the ICC, all the people who are concerned about the effects of the merger on their properties have the right to question the people who are petitioning for the merger and great detail is provided with respect to the financial viability of the merged company.

In this particular case, as a result of the negotiated agreement between the Department of Transportation and the Norfolk Southern, from what I know about it—because I have not had access to any of this information, it is not made public—the Department of Transportation has simply said they have received this information. It is confidential. They have reviewed it and in their judgment the merger is assured of success as a result of it.

SOUTHERN RAILWAY AND NORFOLK & WESTERN MERGER

Senator ANDREWS. Mr. Crane, were you involved in other rail mergers in your tenure at the Southern?

Mr. CRANE. As a matter of fact I was, Mr. Chairman. I was one of the two parties that negotiated the merger between Southern Railway and the Norfolk & Western that created the Norfolk Southern Railroad.

Senator ANDREWS. Why did the Southern in the late 1970's feel it was necessary to find a merger partner, the Norfolk & Western?

Mr. CRANE. I think it was our judgment at that time, Mr. Chairman, that as a result of the anticipated passage of the Staggers Act and a decision that the Interstate Commerce Commission had made recently, at that point in time—which had also been supported by a hearing before the law courts—the so-called Gateway Protection Provisions or the PT&I conditions as imposed by the ICC were no longer viable.

Therefore, no railroad could be assured of a protection of their gateways, and as a result it was our judgment that we had to find some partner to go with so that we could expand the marketing influence of our company and control more origin/destination business.

OPERATION OF CONRAIL

Senator ANDREWS. Mr. Crane, you have a long and experienced record in the railroad industry. You have participated in a number of mergers, sales, and the rest. Would Conrail, if it were not for the sale that is being promoted by the Department of Transportation, be an acquirer rather than acquiree? With that large a cash balance, would Conrail itself be looking to expand its own operations through purchase or merger perhaps?

Mr. CRANE. I think that that decision would be one that the management and the board would have to seriously consider at some time in the future. If we did expand, following the philosophy that I followed on Southern, I think our expansion would only be in the transportation area. It might not necessarily be in the rail area, but we would not consider moving in—and I am speaking for myself only—moving into nontransportation-related areas.

I think that if the company's management has any degree of expertise, it is in the business of running a railroad and marketing transportation and that is where it should stay.

PAYBACK OF CONRAIL DEBT

Senator ANDREWS. Assuming, Mr. Crane, that Conrail stays independent, when does Conrail start to pay back to the U.S. Treasury for the debt instruments held on Conrail?

Mr. CRANE. Conrail would begin to pay that back, if no sale is accomplished, Mr. Chairman. I believe that we are required to start paying that money back in 1987, and the payment level, if I recall correctly, is somewhere between $200 and $350 million.

If I may interrupt for a minute, I will consult with my chief financial officer who is sitting behind me.

Senator ANDREWS. Yes; because this is intriguing. Find out how much it is and how much will be paid back from 1987 through 1992.

Mr. CRANE. May I introduce one of my staff here?

Senator ANDREWS. Sure.

Mr. CRANE. Mr. H.W. Brown, who is our Senior Vice President, Finance. And Mr. Brown, I think, can answer that question.

Senator ANDREWS. Good. Mr. Brown, proceed if you will.

Mr. BROWN. Well, the payment would be based on the results of our operations and the cash balance. So we would have to put forward some assumptions, but based on the assumptions that we have made in the past, we would pay about $300 million in 1987 and a reasonably flat amount for the next 2 years after that. Beyond that, we have not made any assumptions.

Senator ANDREWS. For the next how many years after that?

Mr. BROWN. Two.

Senator ANDREWS. OK. So you would pay back under your assumptions $900 million within 3 years, 1987, 1988, and 1989.

Mr. BROWN. That is correct.

Mr. CRANE. The only reason that we cannot give you the numbers beyond that, Mr. Chairman, is, let me say, we could find it very difficult to make business forecasts much more than 5 years in the future.

In fact, we find it very difficult to even do that. We have made those forecasts for the 5 years in the future. They indicate that we will have profitability and we will have cash-flow that will permit us to meet the requirements of the original 3-R Act, which said that if we were profitable and in a positive net worth position at the end of 1986, that we would start paying this money back to the Government.

Therefore let me say we have got 3 years that we know, based on our forecast, that we are fairly confident we are going to have the profits and the cash and that cash would flow to the Government in accordance with the existing legislation.

Senator ANDREWS. You know, Mr. Crane, back in North Dakota we have pretty good arithmetic teachers. And based on your testimony that your traffic flow is being sustained, your profitability is there, we see a case where the taxpayers are being asked to sell for $1.2 billion an entity that, if allowed to continue, would by your projections pay back $900 million in the next 3 years and the taxpayers would still own it.

Those are some pretty interesting figures, and I appreciate your sharing them with us.

Mr. Berger, could those repayments threaten Conrail's viability, as DOT claimed?

Mr. BERGER. It is the judgment of the staff that it would not.

Senator ANDREWS. So you say that that level of payment could be made without damaging Conrail's viability in any way.

Mr. BERGER. Based on the projections they now have, that is correct.

Senator ANDREWS. OK. I just wanted to nail that down.

Gentlemen, I have a number of other questions for the record, as do other Senators on the subcommittee.

I would like to turn now—and I have an opening statement by Senator Chiles, of course, that we would like to put in the appropriate place in the record—I would like to turn now to our colleague, Senator Lautenberg.

NEW JERSEY SHIPPING INTERESTS

Senator LAUTENBERG [presiding]. I appreciate it, Mr. Chairman, and I want to welcome Mr. Crane and Mr. Berger to the hearing.

I have just a few short questions, gentlemen. As you know, each of you, my concerns are primarily New Jersey shipping interests, the jobs of those people in the State and throughout the area who work at Conrail, and the maintenance of the viability of this organization.

You have had so many compliments, Mr. Crane, that I do not think I have to add any more about what you have done in the past with this railroad, having brought it back from the brink. And I share your concerns about what happens in the future in terms of making certain that we who are responsible for the taxpayers' interests make certain that we get back as much a return on the investment of funds and labor and skill that has gone in there for so many years.

I understand that Mr. Berger's testimony confirms that the worth of the road is there and that we ought to be examining all alternatives that we can for a change of—let's call it ownership; that it looks like an opportunity.

I was interested in the chairman's observations. I was not aware that the railroad was ready to start repaying some of its obligations at the rate of $300 million a year. That starts in 1987, did you say?

Mr. CRANE. 1987, sir.

Senator LAUTENBERG. OK.

Narrowing the focus of my inquiry to the kinds of service that New Jersey shippers will be able to continue to get, Conrail has filed a finding of insufficient revenue with the ICC on four lines serving shippers in one of our southernmost counties, Cumberland County. A finding of insufficient revenue obviously is the precursor to abandoning the line.

Now, local officials, the economic development director in the area, Steve Kaas, is concerned that that might shortcut any economic opportunity there for development and to reduce the ability of those people who are based there to ship their goods.

Now, I had objected to that filing initially and I wondered whether you can update me now as to where that stands.

Mr. CRANE. At the present time, as you know, Senator, under the provisions of the Northeast Rail Service Act, we have filed notices of insufficient revenue on the four lines in Cumberland County that you have referred to. We have not abandoned those lines at the present time. We are still maintaining service over them.

We have worked with the New Jersey DOT and the local business interests in Cumberland County because we believe that, if they were operated as shortline railroads, they could provide economical rail transportation to the area, whereas in our case as a large integrated company, we are not capable of doing that.

I have every expectation that we will work out a satisfactory agreement with those people so that those lines can be transferred to them at a reasonable cost, which will permit them to continue rail service.

I think that posture, if you check with the joint committee down there of those businessmen, they would confirm it. As a matter of fact, I wrote a letter just a couple of days ago when Senator Bradley had written me with respect to it, and stated that we had every hope of moving forward on that and we had every reason to believe that we would be successful in doing so. I took the precaution of checking with our people today and they tell me that those negotiations are going forward very satisfactorily.

I can assure you that we will do nothing overt to cease business down in that territory until we have found a solution to this problem.

CONTINUING SERVICE

Senator LAUTENBERG. That is the reassurance I must have, and that is that there be nothing precipitous; that until an arrangement is made to carry that freight out of there, that you folks are going to continue to provide that service.

Mr. Crane, there are some reports that once this sale issue is disposed of, if it is, in the form of a public offering, that Conrail will try to dispose of between and 4 and 5 thousand miles of track.

Apparently the point made by this charge is that Conrail cannot thrive in the future without massive abandonments. Is there a basis for this allegation?

Mr. CRANE. I do not know what the basis would be for that allegation, Senator. I might point out that under the provisions of the Northeast Rail Service Act, that the company did—and if you will recall, there was an accelerated abandonment provision there—we did move forward for the abandonment of a substantial portion of the mileage.

Obviously, with the accelerated abandonment procedure, it made it a great deal easier than trying to go through the normal Interstate Commerce Commission procedure which is normally required, and obviously we identified all of those lines and I have made, I think, a statement that I certainly do not foresee for the next 2 to 3 years Conrail moving forward on the abandonment of any additional lines in our territory right at the present time.

I cannot predict to you what the economics of the territory might be and it would be imprudent of me to say that we would never have another abandonment. I might point out that that would be true of any buyer or owner of a railroad.

But let me say I happen to be one of the people that believes that the Northeast is starting to grow again and I anticipate that we are going to be a great deal better off than we were. You may have seen the recent article that appeared in USA Today. I think it was about the 15th of the month, which predicted that there was a substantial shift in economics in this country and that the Northeast and Midwest were coming back at the expense of the Southeast.

Senator LAUTENBERG. You did not read the port authority report on that, did you? The vibrancy of the region persuaded you that that was true? We are encouraged by that report.

Mr. BERGER. You are correct. I am not sure I sent him a copy. If I did not, it will be in the mail this afternoon.

Senator LAUTENBERG. I can tell you that you sent it to the press and it was well noted, and I was glad to see it.

ABANDONING RAILS BY NORFOLK SOUTHERN

You know, one of the things that has been happening in the pursuit of the sale is that Norfolk Southern has at least implied to the local community that the lines would not have been abandoned or will not be abandoned if Norfolk Southern owns it.

Now, local officials noted that they had nothing in writing from Norfolk Southern on that and there have been lots of promises made that you, I think, appropriatedly hedged your commitment to hang onto everything, although I would like to believe that the promise made at the altar of the sale will be as well remembered on the 20th anniversary of this decision.

Do you have any comments as to the veracity of even an implied commitment by Norfolk Southern that they not be abandoning rails there?

Mr. CRANE. I would find it unrealistic to believe that Norfolk Southern would follow such a policy if economics dictated that they should do otherwise. Certainly their past history, and all you need to do is take a look at their past history on the Southern Railway or the N&W, they have found it appropriate when economic conditions indicated to move forward with abandonment procedures before the ICC and have indeed abandoned line.

In fact, very recently there was a swap of markets and an abandonment of line in the Union Springs, AL, area of a substantial amount of mileage down there, and this would happen at any time when the necessary hearings were held, when the necessary review of public interest was involved, and when a solution was agreed on between the Interstate Commerce Commission and the railroads as a result of the hearing.

And to say that they are not going to abandon any line on Conrail is simply not a statement of fact, and I do not think you will find that in writing signed by any officer of the Southern Railway or the Norfolk & Western Railroad.

Senator LAUTENBERG. I think that is true. The thing, however, that I would like to do in this case of the special character of Conrail is to make certain as much as we can that if Conrail maintains its independence through public offering or as it presently exists, that there will not be any casual or any sudden decision.

I know that there is that hearing process, decisionmaking process, but I would hope that we would have a chance to see whether these lines can be made more profitable, whether or not they are an invitation to companies to move into the area.

Everybody has noted the prospective shift in the economic structure of the country, and I wonder whether this said, that the Northeast and some of the other Midwestern States may be more vital in the future economically than some of the Southern States or the growth rate might shift a little bit.

INTEREST IN NORFOLK SOUTHERN PROPERTY

Does that make the property of more interest, do you think, to NS?

Mr. CRANE. I think it makes it more interesting to NS. As a matter of fact, Senator, as you know, we have been very active in the industrial development area, including New Jersey. I do not have the statistics in front of me but I would be glad to provide them to you. As a result of that we are spending several million dollars, again, the number I do not have at my fingertips, to upgrade some of the industrial trackage you have in New Jersey.

We spent several million dollars to take care of the Chemical Coast Branch running from Bayonne down to the coal port down there last year and I personally have ridden over a number of those other lines up there and we have plans for continuing to upgrade some of them in this year's work as a matter of fact, with the laying of ties, ballast, and welded rail.

We perceive the industrial area of New Jersey to be a very fertile field. Again, as I have said so many times before, one of the big strengths of Conrail is that about 35 to 38 percent of the total consuming population of the United States is in the territory we serve. They need transportation, including rail transportation, to bring those things to them that they consume.

And we will be in that marketplace and that is the reason the Norfolk Southern wants to acquire Conrail. They are not an eleemosynary institution. They are a hard-headed group of businessmen which perceive a substantial monetary profit to accrue to their stockholders if they can buy this railroad at the price stipulated by the Department of Transportation.

Senator LAUTENBERG. That also, however, would suggest that if a public offering is considered, that the potential value as well as the apparent value of that property has to be factored in.

Mr. CRANE. That is correct.

Senator LAUTENBERG. You say that most of this economic vibrancy has come about since the beginning of 1983?

Mr. CRANE. I did not hear you, sir.

Senator LAUTENBERG. I asked, coincident with my term of office, whether this resurgence came into being [Laughter.]

Mr. CRANE. Obviously, Senator, obviously.

QUESTIONS STILL OPEN

Senator LAUTENBERG. Mr. Berger, I understand that the USRA study and those in the Justice Department will not be finished until late May or June. The Senate moved forward without the benefit of these studies.

In your opinion, is the Conrail issue ripe for a final resolution, absent a full appreciation of the competitive aspects of the sale?

Mr. BERGER. Senator, I can only speak personally; I would have had difficulty coming to a final judgment without having some of these questions answered myself.

Senator LAUTENBERG. So we need to go further in terms of just sensible business practice.

Mr. BERGER. To define it in terms you and I from previous lives understand, due diligence was not done.

Senator LAUTENBERG. Lots of people share your view on that. I just wanted to make certain that that was your attitude.

Legislation has been introduced in the House calling for due sale process as you know. In light of the serious competitive problem with the NS offer, and the apparent willingness of the private marketplace to pay substantially more than the $1.2 billion offered for Conrail, should we start over?

Mr. BERGER. That is a frightening question on the one hand, Senator, because——

PRICE AND PUBLIC POLICY

Senator LAUTENBERG. We are talking about potentially such enormous differences in purchase price. I mean things have really turned around, the marketplace, et cetera. I mean there is a lot more value in the marketplace, I think it is fair to say, for a public offering than there may have been a year ago.

Mr. BERGER. Yes; although the price issue—let me just deal with the price issue which obviously, as you have already pointed out, is a piece of the discussion. I have tried to avoid walking off just on the price issue without the context which you have already put around it, which is the issue of public policy and competitiveness in the Government's ultimate return.

It has become more and more clear over time that we have not maximized the price to the Government without jeopardizing any public policy issues. That is now very clear.

Senator LAUTENBERG. You know that I have been for a sale all along. I would like as much as possible to get those functions, those operations out of Government hands into the private sector, whoever would get them. And I am not just talking about rail; I am talking about anything that we sensibly can separate from Government's oversight.

I just want to make sure that if we do this, that we have done it to the advantage of the Government and the taxpayers of the country in the best way we can, taking into account those primary concerns; because although price is very important, I think it is not among the first two or three priorities, but it is a significant factor.

MAINE CENTRAL STRIKE

Mr. Berger, USRA is in the process of examining the financial health of the Guilford system. What impact is the strike against the Maine Central part of the Guilford system having on your review and what does it mean for Guilford as a potential competitor for NS?

Mr. BERGER. In all honesty, the staff is having difficulty at this point determining the answer to that particular question. It may be too early in the process to know how, in fact, the end product of the labor dispute and what that does to the operating cost of the railroad. It is something we cannot answer till we see how it finally settles out.

Frankly, Senator, it really could come out one of two very different ways. It is too early to know.

Senator LAUTENBERG. It is fair to say, isn't it, that the disruption itself has some costs associated with it? Is that significant enough at this juncture? Do you know enough about it to comment?

Mr. BERGER. I do not think we know enough about it. There are patterns that take place in labor disruptions in companies as it affects both costs and revenues. It is too early to comment.

It is clear that there is potential danger for the company. On the other hand, depending upon the resolution, it might strengthen them.

HAVING VIABLE COMPETITORS

Senator LAUTENBERG. Our interest, of course, is in having a viable competitor up there in the event that the sale takes place, and I am not encouraged by the fact——

Mr. BERGER. I said earlier, you have in terms of the proposed divestiture, carriers which have very potentially serious financial problems. To underestimate that would be a mistake.

Senator LAUTENBERG. I thank each of you. I did not want to pin you down before, Mr. Crane, about the sudden resurgence in vitality of the area because it is the same time I left the port authority, but they do not have any problems to account for my absence, so I cannot take credit on the one hand.

Mr. BERGER. We do not consider that we have lost you, Senator.

Senator LAUTENBERG. I enjoyed working with the port authority. It is a good agency and makes a significant contribution. I hope the three of us agree that Conrail with its share of the economic vitality, the economic opportunity in the region, is going to continue to function as a business in the private sector, fully realizing its value, if there is a sale, to return to the taxpayer and hopefully then to provide lots of jobs and lots of opportunity.

SUBMITTED QUESTIONS

Gentlemen, we have a number of other questions submitted by Senators to be answered for the record.

[The following questions were not asked at the hearing, but were submitted for response for the record:]

U.S. RAILWAY ASSOCIATION

QUESTIONS SUBMITTED BY SENATOR ANDREWS

ALLEGED CONFLICT OF INTEREST

SENATOR ANDREWS: Do you believe that allegations such as this adversely affect public confidence in the integrity of the USRA?

ANSWER: I would hope that those who have heard not only the allegations but also the answers to them would recognize that my diverse responsibilities over the last few years were a matter of public record, and therefore must have been considered by the Congress to be an asset rather than a liability.

USRA-APPOINTED CONRAIL BOARD OF DIRECTORS

SENATOR ANDREWS: When do the current terms of the USRA-appointed Board of Directors for Conrail expire? (It is the Committee's understanding that these terms expire at the end of the month.) Will the existing Board members be or have they been reappointed to fill the expired terms? Why did you recently withdraw you ballot that would have reappointed the six USRA-appointed Conrail Directors? Is it your recommendation that all existing Board members be reappointed?

ANSWER: I am providing for the record a copy of an April 28 memorandum to my colleagues on the Association Board of Directors, which answers all of these questions and explains my intended approach to resolving matters concerning the Conrail Board.

[The material follows]

MEMORANDUM FROM STEPHEN BERGER

April 28, 1986

MEMORANDUM TO THE USRA BOARD

SUBJECT: CONRAIL DIRECTOR APPOINTMENTS

As you know, a unanimous consent resolution was circulated on March 31 proposing re-election of our six designees serving on the Conrail Board of Directors. If approved, as it had been in previous years, the resolution would have been forwarded to the Secretary of Conrail for its Annual Meeting scheduled for April 16, accompanied by a duly executed proxy to be cast at the Conrail director election. By April 11, consents to the resolution had been received from all USRA Board members except the Department of Transportation. The latter consent was not provided until the afternoon of April 15.

On the morning of April 15, I learned that the Department apparently intended to make changes in the slate of five Conrail directors which it unilaterally appoints. I also was informed that Hendrik Hartong, a director appointed by the Department, had written a letter to some Conrail directors in which he proposed that John Robson, a director appointed by USRA, be elected an officer of Conrail.

At that time, lacking an explanation for the circumstances which prompted these developments, I cancelled my previous consent to the USRA resolution. I took this course because my earlier agreement to the resolution was based upon quite different expectations as to the circumstances surrounding election of all of Conrail's directors and officers, and I thought it possible that your own consents might have been based on similar expectations. Only by effectively putting a hold on our resolution was I able to gain the time to ascertain and advise you of facts which you might need before reconsideration of your consents. The Conrail Board is not at all incapacitated by my action; until the USRA Board acts, through unanimous consent or otherwise, to elect its slate of Conrail directors, the ones we previously appointed continue to serve.

Also on April 15, I received the attached letter from Chairmen Dingell and Florio expressing their concern about appointments to the Conrail Board; Secretary Dole received a similar letter pertinent to the appointments made directly by the Department. On April 16, Deputy Secretary Burnley called me to explain that the Department had elected Claud Gingrich to the Conrail Board in place of Daniel Burke. Mr. Burnley's reply to the letter from Chairman Dingell and Florio is attached.

It is not an easy task we ask of the Conrail directors. They are expected to bring their best independent, fiduciary judgments to bear as directors of a corporation that is owned jointly by its employees and the people of the United States, that is mandated by Congress to operate in the marketplace as though it were a private industrial enterprise rather than a governmental entity, and which is being sold by the Department in a manner with which neither all of the directors nor Conrail management agree. While I may not concur fully with every decision they have reached, in general I think that the Conrail Board has done an admirable job in these unique and difficult circumstances.

There is in my view, however, one issue of overriding concern -- namely, that conflicting views concerning the Conrail sale process not be permitted to impair or destabilize the extremely able management team led by Stanley Crane. From conversations with the directors of Conrail, I am aware that not all of them have identical views on this issue, and that the tension this disagreement has created is affecting the working of the Conrail Board. Consequently, I intend to consult with each of the six Conrail directors who have been serving at USRA's request before deciding what action I would be prepared to recommend USRA take concerning our appointments to the Conrail Board. I will report to you what I learn and would invite any comments or views you may wish to offer.

cc: The Honorable John D. Dingell
The Honorable James J. Florio

STATUS OF CONRAIL

SENATOR ANDREWS: How would you rate Conrail's present *performance as compared to other Class 1 railroads?*

ANSWER: Conrail's reported net income for 1985 was $442 million. If you subtracted from that the effect of its state tax exemption and the Federal payment of job protection expense, you get an adjusted figure of $387 million to compare to other "normal" railroads. This was lower than the net income for CSX, Norfolk Southern, and the Burlington Northern, the best of which earned $489 million. Conrail bettered the figures for Southern Pacific, Santa Fe, and Union Pacific, which ranged from $117 to $258 million. As to traffic, the rail industry experienced a cyclical decline in 1985 compared to the especially good year of 1984. Conrail's percentage decline was lower than that of the average of the rest of the industry. Moreover, Conrail increased its profits despite the traffic drop, which was the opposite of the experience of most other carriers.

CONRAIL SALES OFFERS

SENATOR ANDREWS: Please describe briefly any negative features of the proposals made by Morgan Stanley and Allen & Company as compared to the Norfolk Southern package approved by the Senate.

ANSWER: Because the Conrail stock would first be sold to these investor groups and then resold to the public, the possibility exists that Morgan Stanley or Allen & Company could make significant profits from this transaction that would have accrued to the Government if it had chosen to sell the Conrail stock directly to the public. The benefits of Conrail ownership under the Norfolk Southern proposal would accrue to the NS shareholders.

SENATOR ANDREWS: Are there significant negative competitive impacts that would result from the conditions envisioned under either of these proposals?

ANSWERS: Since both the Morgan Stanley and Allen & Company proposals contemplate a stand-alone Conrail, there would be no change in the current competitive balance among railroads as a result of the sales transaction itself.

STRENGTH OF DIVESTEES

SENATOR ANDREWS: Has USRA analyzed alternative divestiture plans in case of the failure of either or both of the carriers that would gain rail lines and trackage rights from a combined Norfolk Southern/Conrail? If so, what are the results of that analysis? If not, why?

ANSWER: We have not examined alternative divestiture plans because of the virtually endless number of options which could be considered. In addition, it would not be possible to analyze any particular alternative at a meaningful level of detail without considerable assistance from the railroads to whom divestitures might be presumed to be made. Evaluation of the viability and competitiveness of post-divestiture service depends upon development of detailed operating and financial plans for every option considered.

SENATOR ANDREWS: Are you confident that Guilford Transportation Industries will be able to weather the strike it is now facing?

ANSWER: The outcome of the strike could be either positive or negative for Guilford, and it is too early to tell which will be the case. The nature of the unknown in a railroad strike is whether the cost savings, if any, which are realized through post-strike agreements or non-agreement personnel wage rates and work rules, are sufficient to offset permanent revenue losses which may result from altered shipping patterns during the strike.

SENATOR ANDREWS: Do you believe that the Pittsburgh & Lake Erie and Guilford Industries will be effective competitors for Norfolk Southern? Please elaborate.

ANSWER: The Association staff has not completed its analysis of this issue. The question we are addressing is the specific one of whether P&LE and Guilford can provide viable competition in the Justice Department's "problem counties" which these carriers will serve for the first time as a result of the divestiture. In any larger sense than this precise inquiry, the relatively small geographic scope of either P&LE or Guilford makes it axiomatic that they cannot compete with Norfolk Southern/Conrail.

SENATOR ANDREWS: It has been reported that Pittsburgh & Lake Erie's corporate parent has been acquired by another corporation that does not plan to keep the railroad when the transaction is consummated. It is thought that P&LE's creditors will take control of the carrier. Is it your opinion that such an operation could provide viable competition for Norfolk Southern/Conrail?

ANSWER: It is our understanding that the creditors do not at the present time control the P&LE. In any event, while it is possible that creditors might manage a railroad differently than would its stockholders, such a difference would not necessarily affect the ability of P&LE to provide viable competition to Norfolk Southern/Conrail. As indicated previously, it is necessary to consider P&LE's competitiveness on a county basis. However, it should be acknowledged that the existing capital structure of the P&LE, which resulted from a restructuring of its secured indebtedness in 1985, may make it impossible for financing to be obtained for the purchase of the divestiture lines. Amendments to the P&LE debt restructuring agreement will be necessary before new investment could be attracted, even if that investment comes from some of P&LE's existing creditors.

JUSTICE DEPARTMENT REVIEW

SENATOR ANDREWS: Are you familiar with the Justice Department's review of the Conrail sale?

ANSWER: Association staff reviewed the public correspondence of the Justice Department concerning the Conrail sale and the work statements provided for the Department's consultant contract, and recently met with Justice personnel to exchange status reports on progress in obtaining data from P&LE and Guilford.

SENATOR ANDREWS: What issues are to be addressed by this review that have not been thoroughly analyzed by USRA?

ANSWER: Both Justice and USRA are considering issues which have not been finally addressed by either. Both had completed reviews of earlier divestiture proposals, but analysis of the most recently revised proposal is ongoing.

SENATOR ANDREWS: Has the Justice Department's outside consultant (R.L. Banks and Associates) made a report of their findings? If so, have you reviewed it? What conclusions have you reached regarding their findings?

ANSWER: Banks has not finished its study of the current divestiture proposal. USRA did review the September 1985 report by Banks on a previous divestiture proposal. Generally, USRA concurred with the Banks finding that information which would sustain a reasonable proof of the post-divestiture viability of Guilford and P&LE had not been provided by these carriers.

SENATOR ANDREWS: Have you participated in any way in that study by R.L. Banks and Associates?

ANSWER: We have not.

PROPOSED MERGER

SENATOR ANDREWS: Last year you were unable to answer certain questions of this Committee regarding the proposed Norfolk Southern/Conrail merger pending completion of a USRA analysis of the competitive impacts of the merger. Was such a study completed last year?

ANSWER: This study was provided to the Congress on July 29, 1985 in a report which also included an update on the USRA staff analysis of Conrail's viability.

SENATOR ANDREWS: Based on the results of this study, does the proposed merger restore competition in the Northeast, where Conrail presently has a virtual monopoly?

ANSWER: The proposed merger changes the competitive dynamic throughout Conrail territory. With respect to Conrail's existing monopoly service areas in the Northeast, the main impact of the proposed merger may well be to extend the market power of a combined Norfolk Southern/Conrail vis-a-vis captive shippers. The reason for this effect is that some of the traffic movements in or out of Northeastern monopoly service areas will also be subject to monopoly service characteristics at the other end of the movement on existing Norfolk Southern lines.

SENATOR ANDREWS: What impact would the proposed merger have on large and mid-sized railroads in the West?

ANSWER: The benefits to Norfolk Southern of its consolidation with Conrail would to some extent be achieved at the expense of Western carriers. However, the revenue losses of those carriers would not constitute a significant share of their business. This is in contrast to the very substantial losses which would be experienced by some of the Midwestern carriers.

COAL SHIPMENT COMPETITION

SENATOR ANDREWS: Opponents of the Norfolk Southern/Conrail merger alleged recently in a letter to Department of Justice officials that, under the merger, the potential railroad competitors for moving coal from Appalachia to the ports would be reduced from 3 to 2, and could become just one if the CSX Corp. is compelled to abandon its main Baltimore and Ohio Railroad line hauling coal from northern and central West Virginia. They also charged that, under the merger, coal exported through east coast ports would lose its competitive edge and competition among coal dumping piers at the ports would be reduced, thus lowering service levels. Has USRA assessed the validity of these allegations? If so, what were your findings? If not, do you intend to do so?

ANSWER: USRA examined the CSX assertions regarding abandonment of Baltimore and Ohio properties generally. While the proposed merger would have a very significant impact on CSX, it was not found possible to predict specific actions which CSX management might take in response. Having said that, it is reasonable to conclude that large-scale abandonment of CSX properties is within the range of options which its management might consider as appropriate to the consequences of an Norfolk Southern/Conrail combination. With respect to east coast ports, USRA has not attempted to verify the CSX allegations. The ports have themselves taken a position about such matters and attempted to negotiate with Norfolk Southern for what they considered to be adequate protections. USRA has not been asked by any of the ports to analyze the issues involved.

USRA ACTIVITIES

SENATOR ANDREWS: Are you presently conducting any studies for members of the Senate? If so, what?

ANSWERS: All of USRA's current work concerning the divestiture proposals is in response to essentially similar requests from Senator Metzenbaum and Congressmen Dingell and Florio.

SENATOR ANDREWS: How would USRA conduct such a study if asked?

ANSWER: USRA's staff would conduct an analysis of Conrail's railroad operating economics, including risk assessment and such bottom-line figures as net income and cash flow, and provide that information to a stock market valuation expert to consider pricing issues.

SENATOR ANDREWS: What studies or reports were completed by USRA in 1985 and 1986 to date?

ANSWER: Most of USRA's efforts in 1985 were devoted to three studies. Two of these were reported on July 29: estimates of traffic losses to be experienced by other railroads as a result of Norfolk Southern's purchase of Conrail; and an update of the Conrail viability determination previously reported by the staff. With respect to the latter, USRA generally found no reason to modify its previous judgment that the available evidence showed Conrail is viable today. The report also included USRA's refutation of the specific arguments advanced by Norfolk Southern as to why Conrail's prospects might change in the distant future. The third major study undertaken in 1985 concerned the divestiture plans required by the Justice Department before it would approve the Norfolk Southern proposal. USRA was about to publish its report when the Justice Department announced in late September that it found the divestiture proposal in effect at that time to be inadequate. That conclusion was also reached in the USRA analyses, but the written report was not published. It was made available only on a confidential basis to the Justice Department in early October 1985. The revised divestiture proposals announced in November have been the subject of most of USRA's efforts since then, and continue today. In addition, we are nearing completion of our analysis of Conrail's 1985 results and their bearing on the question of Conrail's future viability. The results of this study, which includes certain industry comparative data not available until mid-April, will be published in the coming weeks.

SENATOR ANDREWS: Are you aware of any additional requests by members of Congress for studies that might be made during 1986?

ANSWER: It is assumed that if the divestiture proposals are modified again, USRA would again be asked to review them. If the Norfolk Southern proposal is not adopted by the Congress, it is possible that USRA would be asked to evaluate the relative merits of alternative hypothetical Conrail sale transactions, such as a public offering.

SENATOR ANDREWS: Are there reports already released or anticipated during 1986 as part of your statutory mandate to monitor Conrail's financial performance? If so, what are these reports, and when were they released or scheduled?

ANSWERS: We have completed the data-gathering stage and are now writing the report described earlier on Conrail's 1985 performance. It should be available by June 1.

VALUATION OF LITIGATION

SENATOR ANDREWS: You stated last year that only one party -- Central Railroad Company of New Jersey (CNJ) -- had not settled its claims from the transfer of assets to Conrail following CNJ's bankruptcy. What is the status of that settlement?

ANSWER: The Valuation Litigation has been completed regarding the value of assets transferred to Conrail on April 1, 1976. USRA has issued Certificates of Value to Central Jersey Industries, Inc. (CNJ), the corporate successor to the bankrupt Central Railroad Company of New Jersey evidencing the Government's obligation to CJI; however, the Certificates have not been redeemed. There are still outstanding disagreements among the United States, CJI, and other securities holders of CJI which are being litigated currently in appeals taken from CJI's reorganization court. The Government Parties to the Valuation Litigation are also concerned with these disputes, and are providing assistance and support to the Justice Department, which is managing the litigation. The proceeds of the Certificates of Value are the major source of funding for the CJI distribution plan. The Government Parties believe that the distribution plan should be finalized and should protect the various interests of the United States as much as is reasonably possible prior to the redemption of the Certificates of Value.

SENATOR ANDREWS: How much USRA staff time has been devoted to valuation of litigation activities in each of FY's 1983, 1984, 1985, and 1986?

ANSWER: USRA staff time devoted to the valuation of litigation activities in fiscal 1983 was approximately 10 man-years, in 1984 3 man-years, in 1885 1 man-year, and in 1986 1/4 man-year. The balance of USRA staff time devoted to legal matters in FY 1986 is related to normal corporate legal activities and legal support of studies undertaken by USRA.

SENATOR ANDREWS: What valuation of litigation activities do you expect to conduct in FY 1987?

ANSWER: USRA expects to conduct no valuation litigation activities in FY 1987. USRA staff time in FY 1987 devoted to legal matters will be related to normal corporate legal activities and legal support of studies undertaken by USRA.

CONRAIL LABOR PROTECTION

SENATOR ANDREWS: The Administration has proposed deferral in 1986 of $4.565 million in authorized Conrail labor protection funds, based on the contention that sufficient funding has already been provided to Conrail to cover all claims anticipated in 1986. Has USRA analyzed this situation? If so, what were your findings?

ANSWERS: USRA has not been asked to analyze this situation.

SENATOR ANDREWS: Do you agree with the Administration's position that sufficient funding remains to honor Conrail labor protection claims even with the deferral of $4.565 million? If not, why?

ANSWER: The most authoritative source of an answer would be the Railroad Retirement Board, which administers this program. It is our understanding that there are sufficient funds to honor labor protection claims through the end of FY 1986.

SENATOR ANDREWS: In the Conference Committee report accompanying the FY 1986 appropriations, the Committee requested a report on Conrail assuming full financial responsibility for labor protection payments. Was USRA involved in discussions between the Secretary of Transportation and Conrail's Board of Directors regarding this topic? If so, how? If not, why?

ANSWER: USRA was not involved in these discussions. USRA was not invited to participate, since the program is administered by the Railroad Retirement Board with funds provided by the Department of Transportation, and since USRA currently has no direct involvement in this program.

SENATOR ANDREWS: What is the status of this report?

ANSWER: Our understanding is that Conrail and DOT met on April 28th, and while the issue is not yet resolved, resolution is expected shortly.

PROPOSED RESCISSION

SENATOR ANDREWS: The Office of Management and Budget (OMB) proposed to rescind $640,000 of FY 1986 funding and terminate USRA effective on March 31. The 45-day period for Congress to consider the rescission request has now expired. Is USRA being permitted by OMB to expend these funds?

ANSWERS: Yes.

SENATOR ANDREWS: Did this proposed rescission (and withholding of funds) create any "cash flow" problems for USRA during 1986?
ANSWER: No funds were in fact withheld.

SENATOR ANDREWS: Given that USRA's principal remaining responsibilities relate to ongoing oversight of Conrail's financial performance, could these activities reasonably be absorbed by DOT, as proposed by OMB?
ANSWERS: With respect to technical expertise, USRA's specialized work over the years has resulted in virtually unique resources which would have to be transferred to DOT in order for our oversight of Conrail's financial performance to also be transferred at its current level of effectiveness. There is an overriding issue, about which USRA cannot comment, as to what value the Congress places upon having such work done by an independent agency with no other role in the Conrail sale process than that of providing facts and factual analyses to the Congress and various public constituencies affected by a Conrail sale.

BUDGET REQUEST

SENATOR ANDREWS: The USRA requests $2.3 million for FY 1987 to fund approximately 22 full-time employees. How was this figure derived?
ANSWER: The request is comprised of both personnel and non-personnel funding requirements. The personnel-related funding requirements were derived by totalling the following items: a) current salary cost of 22 full-time and 2 part-time employees; b) projected Directors' fees; c) estimated employer share of social security and railroad retirement payments; d) estimated unemployment and workmen's compensation payments; e) estimated payments to employee pension fund; f) estimated payments for employee insurance; and g) projected annual leave costs.

Non-personnel funding requirements consist of the following estimated items: a) employees' and directors' travel costs; b) printing and reproduction costs; c) operating supplies and publications; d) space rental, utilities and extra services costs; g) equipment maintenance costs; h) other administrative contractual costs, such as property insurance, outside payroll processing costs, and HUD clinic medical costs; and i) contractual professional costs for outside consulting services. Non-personnel costs are derived by using actual leases and contracts as applicable, and past experience combined with projected work requirements in other cases.

SENATOR ANDREWS: House Report 99-256 accompanying the 1986 DOT Appropriations Bill specifies that the 1986 appropriation will support 30 full-time permanent positions, the number requested by USRA. Is USRA employing 30 full-time employees during 1986? If not, why not, and how many?
ANSWER: USRA currently employs 22 full-time personnel. The reduction from 30 employees commencing at the start of fiscal 1986 resulted from: first, the resignation of an administrative support employee and a financial analyst, whose responsibilities were reallocated among other personnel; second, the conversion of one full-time employee to part-time status; and third, the contraction

of our computer services group, comprising both machine operators and applications programmers, to one employee from six, following the disposition of our mainframe computer. Continued ownership of our mainframe computer became uneconomic when there was reduced demand for time-sharing services supplied to other U.S. Government agencies.

SENATOR ANDREWS: When were personnel reductions made? What areas of expertise were de-emphasized?

ANSWER: These changes were all in effect by January 1, 1986. The only functional change that resulted from these reductions was the elimination of our mainframe computer capability. We now use time-sharing on another federal agency's mainframe computer for data processing needs which cannot be handled by microcomputers.

SENATOR ANDREWS: Were personnel reductions made as a result of Gramm-Rudman-Hollings budget cuts?

ANSWER: The savings associated with dispostion of our mainframe computer would have produced a carryover at the end of fiscal 1986. The Gramm-Rudman-Hollings cuts, which went into effect on April 1, absorbed this prospective carryover, with the result that it was not necessary to undertake additional personnel reductions at that time.

SENATOR ANDREWS: How much of the $2.3 million budget request is for personnel expenses? How much for non-personnel costs?

ANSWER: $1.7 million of the requested budget is for personnel-related costs, and $.6 million for non-personnel costs.

SENATOR ANDREWS: Please provide for the record the number and types of personnel employed for 1986 and projected for 1987. (Similar to the table that appears on page 464 of the record for the 1986 Budget Hearing.)

ANSWER: Chairman's Office: total staff 5, including one clerical (Executive Administration, General Counsel, Corporate Secretary).

Conrail Evaluation Department: Total staff 14, including Staff Director and 3 clerical. Major functional groupings are:

3 Financial analysts;
2 Marketing analysts;
4 Operations and cost analysts;
1 Application programmer.

Accounting, personnel, and miscellaneous activities such as reproduction, purchasing, archives: total staff 3.

SENATOR ANDREWS: Of the non-personnel costs, how much will be for contracting work outside the agency?

ANSWER: $120,000.

SENATOR ANDREWS: The estimated personnel-related cost of $1,710,000 amounts to $73,000 per employee for FY 1987. This compares to cost per employee of other independent agencies under the jurisdiction of this Subcommittee in the following fashion: National Transportation Safety Board -- $46,100; Architectural and Transportation Barriers Compliance Board -- $43,400; Interstate Commerce Commission -- $61,300. What items are included within your personnel related costs? What is the average salary of a USRA employee?

ANSWER: While we do not know what items of costs are included in the personnel-related cost for the above agencies, we believe that they are government agencies rather than government corporations. USRA is a government corporation, and is therefore subject to the payment of some personnel-related costs, such as railroad retirement contributions and unemployment and workers' compensation costs, which are not included in an appropriation request of a government agency. Additionally, the above agencies are fully operational agencies with a balanced complement of skills and types of employees. In contrast, the USRA is a phased-down agency comprised primarily of highly skilled professionals. In our phase-down from over 350 employees in 1981 to our current complement of 22 full-time employees, USRA concluded that it was more effective and economic to retain highly skilled personnel who could perform many different functions than to retain a larger number of less skilled employees each of whom could perform only in a limited capacity. The result of that decision is inevitably reflected in higher average salaries than government agencies, with employment mixes that include entry-level positions as well as less skilled jobs associated with extensive overhead or administrative functions.

The following items are included in USRA's personnel-related costs: a) base salary; b) overtime; c) employer's share of social security; d) employer's share of railroad retirement; e) unemployment compensation; f) workmen's compensation; g) employee pension; h) employee insurance; i) annual leave. Our $1.7 million estimate of personnel-related costs covers full-time and part-time employees.

The average salary of a USRA full-time employee is $55,439.

CONTRACT SERVICES

SENATOR ANDREWS: Is Lazard Freres being retained as a professional advisor in 1986? If so, how much will they be paid this year, and what services are they performing?

ANSWER: Lazard is still working on its financial evaluation of the Norfolk Southern proposal to purchase Conrail, including the effects of the most recently revised divestiture plan. Our contract with Lazard called for lump-sum payments which were obligated from fiscal 1984 and 1985 funds. As a result, it was not necessary to provide for additional funding in the fiscal 1986 budget.

SENATOR ANDREWS: Has Lazard been fully reimbursed under the contract for the report on Conrail that was scheduled for completion last year? What was the total cost of the contract? Since only $53,000 was spent for contractual professional services in 1985, from what functional category were payments to Lazard derived?

ANSWER: Lazard was paid the full contract price of $200,000 during fiscal 1984 and 1985.

SENATOR ANDREWS: Will Lazard be retained as a professional advisor in 1987?

ANSWER: Lazard's future services, if they are willing, will depend upon the evolution of the Conrail sale process and the nature of study requests received by USRA. Tasks currently underway by Lazard should be finished before 1987.

SENATOR ANDREWS: What services are provided under the budget category "Contractual Professional Services"? Please provide a breakdown by amount for each of FY 1986 and 1987.

ANSWER: Approximately 60 percent of the $100,000 in each of 1986 and 1987 was budgeted for civil engineering contractual services, including travel expense, used in conjunction with our program of regularly monitoring Conrail's plant condition and maintenance activities, and evaluating its capital spending plans annually. This contract was approved unanimously by the USRA Board when the last USRA staff engineer resigned. The remainder of this budget item is being used in 1986 for expansion of this contract to cover necessary engineering evaluations of the divestiture properties and capital plans associated with Guilford and P&LE line purchases pursuant to the Norfolk Southern proposal to acquire Conrail. The amount budgeted for 1987 allows for any other unanticipated need of similar magnitude.

SENATOR ANDREWS: What services are provided under the budget category "Contractual Administrative Services"? Why is there such a significant reduction between 1985 and 1986?

ANSWER: The following types of costs are included under this budget category: a) space alterations; b) equipment maintenance; c) temporary personnel services; d) medical services; e) auditing services; f) outside payroll processing services; g) property insurance; and h) archiving costs.

The significant reduction in costs between 1985 and 1986 results from release of the USRA computer, due to elimination of associated maintenance costs of over $120,000 annually.

CARRYOVER FUNDS

SENATOR ANDREWS: Your budget justification (page 4) states that for several years, as personnel were terminated and changes occurred in its work program, USRA realized year-end carryover funds from the release of rented space, sale of furniture and fixtures, and reimbursements received from other Federal agencies for use of USRA's automated data processing (ADP) equipment. You further point out that no such income was available last year. Did USRA realize any income from the disposal of its ADP equipment to the District of Columbia government effective last September 30? If so, how much? If not, why not? If income was realized, to which fiscal year is it applied?

ANSWER: When time-sharing to other Federal agencies of our mainframe computer appeared unlikely to generate enough income to make it economic for us to retain this type of ADP capability, we first endeavored to sell the equipment on the commercial market. We were not able to find a buyer, and as a result turned the disposition of the computer over to GSA in the manner prescribed for Government agencies. Under those procedures, USRA receives no compensation, regardless of who receives the property. GSA excessed the computer to the D.C. Government when no federal agencies requested it.

SENATOR ANDREWS: Your budget justification also indicated that the USRA personnel complement has been reduced from 30 to 22. Are there carryover funds to be realized in FY 1986 from the release of rental space or sale of furniture and fixtures associated with this reduction in personnel? If so, how much? If not, why?

ANSWER: All of the savings resulting from our mainframe computer disposition, which accounted for virtually all of our personnel reduction, was consumed by the automatic Gramm-Rudman-Hollings cuts that went into effect on April 1, 1986. Absent these cuts, we would have had a carryover of approximately $103,000 at the end of the current fiscal year.

QUESTIONS SUBMITTED BY SENATOR CHILES

USRA STUDIES

SENATOR CHILES: Assuming that the Conrail sale does not take place by the end of FY 1986, the USRA would presumably continue to monitor Conrail operations and make further studies of the Conrail sale proposals. What kind of studies do you expect to make in 1987? What studies have you done in the past year?

ANSWER: Most of USRA's efforts in 1985 were devoted to three studies. Two of these were reported on July 29: estimates of traffic losses to be experienced by other railroads as a result of Norfolk Southern's purchase of Conrail; and an update of the Conrail viability determination previously reported by the staff. With respect to the latter, USRA generally found no reason to modify its previous judgment that the available evidence showed that Conrail is viable today. The report also included USRA's refutation of the specific arguments advanced by Norfolk Southern as to why Conrail's prospects might change in the distant future. The third major study undertaken in 1985 concerned the divestiture plans required by the Justice Department before it would approve the Norfolk Southern proposal. USRA was about to publish its report when the Justice Department announced in late September that it found the divestiture proposal in effect at that time to be inadequate. That conclusion was also reached in the USRA analyses, but the written report was not published. It was made available only on a confidential basis to the Justice Department in early October 1985. The revised divestiture proposals announced in November have been the subject of most of USRA's efforts since then, and continue today. In addition, we are nearing completion of our analysis of Conrail's 1985 results and their bearing on the question of Conrail's future viability. The results of this study, which includes certain industry comparative data not available until mid-April, will be published in the coming weeks. As appropriate, that work will be updated in fiscal 1987. It is assumed that if the divestiture proposals are modified again, USRA would again be asked to review them. If the Norfolk Southern proposal is not adopted by the Congress, it is possible that USRA would be asked to evaluate the relative merits of alternative hypothetical Conrail sale transactions, such as a public offering.

SIZE OF USRA BUDGET

SENATOR CHILES: With the proposed sale of Conrail, extensive and in-depth study of Conrail operations and financial situation have been made. Even if the sale is not completed in FY 1987, why do we need 22 people and $2.3 million to study what has already been reviewed? Can we use the GAO and ICC to monitor Conrail? If Conrail is sold during the year, how long will it take to close out USRA operations? The Agency's staffing has been reduced from last year's 30 to 22, partly because you have gotten rid of your mainframe computer, and thereby reduced operating costs and staff. Are there similar opportunities which could provide further significant staff reductions?

ANSWER: Although USRA has updated its Conrail financial studies during 1985 and again in 1986, the overwhelming majority of our efforts in the last twelve months have involved evaluating the financial and operational issues arising out of various proposals for the sale of Conrail. A major portion of our activity has been associated with analyzing the impact on other parties, such as Midwestern railroads, of the specific Conrail sale proposal selected by the Administration. This work has been both in response to specific Congressional requests and as required by the Northeast Rail Service Act of 1981, which instructs USRA to monitor the compliance of all parties with their responsibilities under that Act. This includes the role of the Secretary of Transportation in the sale of Conrail. It is our expectation that if the Congress were to desire to continue USRA's services in fiscal 1987, the majority of our work again would be associated with evaluating alternative sale proposals and their consequences. However, it should be noted that, as long as the Administration rationalizes any sale proposal by a continued concern over Conrail's future viability, USRA is likely to continue to receive Congressional requests to update our financial analyses of Conrail as an independent entity.

As in the previous three years, USRA is not requesting an appropriation. It is our estimate, however, that if the Congress wishes to sustain USRA's independence and specialized expertise, then a staff of 22 and funding of $2.3 million is necessary to perform the minimum level of appropriate activity.

Certainly, if USRA's unique resources, developed through several years of specialized experience in Conrail matters, were transferred to other independent agencies such as GAO or ICC, then in technical terms USRA's functions could be performed by those organizations. It is more difficult to say what the net savings to the Government would be until a resource transfer plan was worked out in some detail.

It has been our expectation that USRA would phase down its operations in an orderly fashion following the sale of the Government's interest in Conrail. This could be accomplished in no more than six months.

The significant cost reductions which we achieved during fiscal 1986 resulted from an unusual situation for which there is no additional, similar opportunity at our present size. By utilizing the latest available microcomputer technology as well as purchasing time-sharing services from a federal agency with excess ADP capacity (National Institutes of Health), it was possible for USRA to reduce its expenses without having to curtail any of its functions. These actions resulted from a study that USRA commenced on its own initiative during the Spring of 1985, as disclosed to the Subcommittee in our testimony at the time. We have not been able to foresee any further significant staff reduction opportunities which would not seriously compromise individual functions of our analytical capabilities. Each of USRA's current capabilities has been essential to the conduct of the work of the past year in evaluating Conrail sale proposals. USRA could have operated with fewer staff, but it could not have accomplished the same tasks. Thus, the question of appropriate size turns on Congress' expectations for USRA's work product.

FEASIBLE METHOD FOR CONRAIL SALE

SENATOR CHILES: The proposal of Secretary Dole for the sale of Conrail is based on the assumption that, over the long run, Conrail is not a viable entity. What is the current USRA view of Conrail's long-run viability? Given all the questions which have been raised about the adequacy of the Norfolk Southern bid of $1.2 million, what mechanism would USRA recommend to insure that the taxpayers received the highest return on the billions that have been invested in Conrail?

ANSWER: The USRA Board determined Conrail to be viable in its June 1983 report to the Congress required by NERSA. The Secretary of Transportation was part of the Board's unanimous vote. Since then, Conrail has improved and extended its performance for three additional years. It seems to me that anyone that suggests that the future is going to depart in any significant way from the experience of the last five years, in which Conrail has demonstrated steady improvement, has the burden of making a specific rather than a general argument. I am not aware of any such specific arguments, and therefore am quite content to stick with our Board's previous findings.

Price would be maximized by a true market auction, be it a public offering or a block sale of the Conrail stock owned by the Federal Government, which was not accompanied by the nonprice objectives and associated restrictions imposed by the Administration on the sale process so far.

CONRAIL REPAYMENT ON INVESTMENT

SENATOR CHILES: I understand that, by law, when Conrail's cash situation reaches a specified level, it will begin to make repayment to the Federal Government for its investments in Conrail. What is the formula which determines this payback, and what level is anticipated over the next few years? CBO has made estimates of these receipts. Does USRA agree with these estimates? Would the Federal Government be better off fiscally by retaining Conrail in its current status and receiving annual payments from Conrail?

ANSWER: The formula requires that once Conrail has accumulated $500 million in retained earnings, it must pay in any one year up to half of the preceding year's net income before deferred taxes and debenture interest or the amount of cumulative net income over $500 million, whichever is lower. The sequence of the annual cash payments is as follows:

1. Interest on debentures -- $63.82 million
2. Dividends on Series A preferred stock -- $191.66 million
3. Dividends on Series B preferred stock -- $158.70 million
4. Redemption of the debentures
5. Redemption of the Series A preferred stock.

At this time, USRA expects Conrail to cross the $500 million retained earnings threshold in 1987. Based on Conrail's 1986 budget and last year's 5-year outlook, USRA anticipates that Conrail will pay for the period 1987-1989 approximately $715 million.

USRA's estimate of the receipts is in line with CBO's estimate.

If the Federal Government retained Conrail in its present status, and Conrail's earnings continued at recent levels, then the Federal Government would enjoy interest, principal repayment, and preferred or common stock dividend payments indefinitely.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SENATOR SPECTER: In July 1985, the USRA staff provided a report to Congress which evaluated the "traffic diversion" which would result from the proposed merger of Conrail and the Norfolk Southern Corporation. Where would the greatest adverse impact occur, and what is the conclusion as to whether or not the proposed divestitures to Guilford Transportation and the Pittsburgh & Lake Erie Railroad would have any mitigating effect on this situation?

ANSWER: The P&LE's difficult plight at the present time would not be significantly worsened because of a Norfolk Southern/Conrail Combination. The divestiture would mitigate the serious impact of such a merger to Guilford, but would not reduce the damage to CSX, Grand Trunk Western, Chicago Northwestern, or ICG, who all would be harmed significantly. In terms of amount of revenue loss, these latter four carriers would experience by far the greatest amount of adverse impact. In terms of the percentage of each railroad's business diverted to NS/Conrail, the biggest losers probably would be Guilford and Grand Trunk, with Chicago Northwestern and ICG also suffering substantial, though possibly lesser, harm. Each of these four railroads and their operating/service patterns would be significantly different after a combined NS/Conrail had flexed its full market power.

SENATOR SPECTER: You have mentioned that USRA continues to study the operating and financial plans submitted by Guilford and the Pittsburgh & Lake Erie, but that "key parts" of the Guilford agreement have yet to be negotiated with Norfolk Southern, and that "significant data needs" must yet be supplied by P&LE (written testimony, p. 6.) Would you please elaborate on exactly what elements must yet be supplied and/or negotiated for each of the proposed divestees? Without such information, can the USRA reach reasonable conclusions as to viability, traffic, etc?

ANSWER: The key part of the Guilford agreement which has yet to be negotiated with Norfolk Southern is the exact terms and conditions under which Guilford could assume the switching of industries served presently by Conrail. This is important in that Guilford's access to a major portion of its traffic in the divestiture is by reciprocal switch to NS/Conrail customers. In return, Guilford would be performing very little switching for NS/Conrail. In order to "balance" the positions of leverage between Guilford and NS/Conrail, they have agreed that Guilford could assume the switching of certain other NS/Conrail customers.

This arrangement is without precedent in the commercial relationships of U.S. railroads, so there is no "model" as to how this arrangement would work. The various alternative terms under which such an arrangement could conceivably be implemented would have vastly different operating cost and capital implications for

Guilford. Guilford thinks that the existing agreement contains adequate definition based on understandings of "intent" with Norfolk Southern, with a fallback of arbitration. However, after this transaction is commenced, Norfolk Southern may not readily implement Guilford's understanding of intent, because the assumption of switching by Guilford might be an economically adverse transaction for Norfolk Southern.

At USRA's request, Guilford agreed to re-discuss this topic with Norfolk Southern and attempt to craft further definition language. Since we understand that the switching option was added to the divestiture plan to meet a Justice Department criterion, we assume that Justice also would require that the parties work out all possible ambiguities in advance. Otherwise, the switching option could prove of little value to Guilford and endanger any presumption as to reciprocity of switching between the carriers at all points.

At this time, important data requests are outstanding from the P&LE. They include assumptions made in constructing the P&LE base case (without expansion) and for their expansion case. It also includes the detail as to how P&LE expansion revenue projections were made. Without this information from P&LE, and the above from Guilford, USRA cannot reach the requested conclusions.

CONRAIL

QUESTIONS SUBMITTED BY SENATOR ANDREWS

CONRAIL OPERATIONS

SENATOR ANDREWS: Do you believe that Conrail's traffic base has stabilized?

ANSWER: Yes. There are signs of long-term growth in the auto and intermodal traffic segments, offsetting restructuring that is still taking place in the steel industry. Conrail is the largest automotive and intermodal transportation company in North America, and it has important traffic lanes between the automotive centers where new investment is being made. Conrail also serves large consuming markets of the Northeast with rapidly growing piggyback and double-stack service.

SENATOR ANDREWS: Is there a chance, or do you project an upturn in the Conrail traffic base?

ANSWER: Growth in automotive/intermodal traffic will be offset by continued restructuring in the steel areas, resulting in an overall stable traffic volume in the near term. After 1990, net growth is possible, depending upon utility coal consumption patterns in the Northeast.

SENATOR ANDREWS: What has Conrail done to preserve or enhance its traffic base?

ANSWER: Conrail has developed new service to adapt to the "Just-in-Time" manufacturing system of the auto and steel industries and to the flow of imports into the Northeastern consumer area. A network of dedicated trains has attracted growing volumes of mail and parcel traffic. Conrail has instituted a tightly managed network of automotive trains, with parts and vehicles handled directly in and out of auto assembly plants. Its rail network provides high density service coverage which serves 70%+ of auto parts/assembly plants in Michigan/Indiana/Ohio. Conrail operates doublestack trains to handle overseas traffic formerly moving through the Panama Canal, and it has helped develop new coal mines in Pennsylvania and West Virginia and new coal piers to meet the needs of utilities and the export market for low-sulphur coal. Flexible labor agreements have also contributed to the stabilization of the traffic base in these key commodity areas.

We do not believe that our traffic base is declining. To the contrary, we see our service region -- as do various outside observers -- as undergoing an economic revival.

- The Northeast is experiencing a genuine resurgence.
- At the same time, the restructuring that has been occurring in the more basic industries of the Midwest will enable them to strengthen their competitive positions.

- In 1984 and 1985 alone, over 400 new businesses have located in Conrail territory with over $2 billion in capital investment.

Moreover, Conrail has developed programs to share in such growth. We shall do this by identifying customer needs and utilizing the flexibility available under deregulation to design new products to fill these needs. The products are designed to address the issues of modal competition, new production processes (e.g. "Just-In-Time" inventories), and penetration of foreign goods into U.S. markets. These elements we believe will enable us to stabilize and then expand our traffic base.

DIVESTITURE PLANS

SENATOR ANDREWS: Are you familiar with the financial stability or performance of Pittsburgh and Lake Erie and Guilford Transportation?

ANSWER: Yes, I am familiar with their performance.

SENATOR ANDREWS: In your opinion, using your railroad knowledge, do you believe that either in the short term or long term that these two railroads can survive? If not, why not? (Please elaborate)

ANSWER: P&LE's short term financial survival is unlikely, at best. In our April, 1986 Analysis of P&LE's proposed divestiture plan (copy attached), we discuss at some length the significance of P&LE's recent financial performance. Back in August 1985, the ICC staff study found that P&LE was not a financially viable carrier. Since then, P&LE's financial condition has further deteriorated. P&LE's fiscal 1985 operating loss was $11 million -- 151% worse than its fiscal 1984 performance. Stated another way, P&LE's operating ratio worsened from 104.0% in fiscal 1984 to 130.2% in fiscal 1985. In addition, P&LE has an extremely weak cash position, remains highly leveraged, and its short term solvency is questionable. P&LE itself apparently does not expect significant improvement since it has already requested that its creditors waive the minimum payments required for 1986 ($8 million) and 1987 ($9 million), under its June 1985 debt restructuring agreement. In short, although we do not have full information on P&LE's recent financial performance and the results of its requests for waivers, what little we do know creates a very bleak picture of P&LE's chances for short term survival.

Similarly, Guilford's financial status is marginal, at best, and shows no evidence of long-term viability. In our March 1986 analysis of Guilford's proposed divestiture plan (copy attached), we were hampered in our examination of Guilford's financial data by the lack of complete audited financial statements for Maine Central, the one Guilford component railroad that does not have to report to the ICC. Nevertheless, we do know that the Boston and Maine and Delaware and Hudson combined had substantially worse operating results in 1985 than in 1984. Perhaps most telling with respect to Guilford's financial performance is the fact that between mid-1985 and January 1986, Guilford's projections for 1985 operating income declined 72 percent -- from nearly $7 million to nearly $2 million. We have yet to see the audited year end figures.

Conrail, on the other hand, with more than nine times the 1984 revenues of Guilford and P&LE combined and $466 million in 1984 net operating income compared to the $0.5 million made by Guilford and P&LE, continued its strong performance into the first quarter of 1986, with $60 million in net income -- up $5 million over last year.

(Clerk's note: Due to the size of the document, it will be retained in the subcommittee files and is available for review.)

SENATOR ANDREWS: What is the current situation regarding the Brotherhood of Maintenance of Way Employes BMWE strike against Guilford Transportation?

ANSWER: BMWE's strike against Guilford Transportation continues. On April 6, 1986, U.S. District Judge, Michael Telesca issued a preliminary injunction barring BMWE from picketing Conrail facilities. BMWE appealed Judge Telesca's order to the 2nd U.S. Circuit Court of Appeals and moved to stay the order pending such appeal. On April 22, 1986, the 2nd Circuit denied the motion to stay and scheduled hearing on the BMWE's appeal for May 12, 1986. The BMWE subsequently made an emergency request to the Supreme Court in connection with the 2nd circuit's denial of the motion to stay. Justice Marshall denied the request, leaving Judge Telesca's order intact.

At 12:01 AM on April 25, 1986, the Brotherhood of Locomotive Engineers, the United Transportation Union and other unions also struck Guilford. This action was in response to Guilford's notification to all employees that their positions would be filled by permanent replacements if they did not report back to work on or before April 25. As part of this action, Guilford employees picketed a number of Conrail facilities in Pennsylvania and New York. Some Conrail employees honored these picket lines, resulting in a cessation of operations on our Southern Tier in New York state and seriously impacting operations at our Harrisburg, PA and Selkirk, NY terminals.

Guilford obtained a temporary restraining order in the U.S. District Court for the District of Massachusetts on Saturday evening, April 26. By 10:45 PM that night all picketing of Conrail facilities had terminated. A hearing on Guilford's motion for a preliminary injunction is scheduled to be heard by Judge Keaton on May 1, 1986.

SENATOR ANDREWS: How does this affect the proposed divestiture of Conrail lines to Guilford?

ANSWER: We do not believe that, Guilford is capable of providing a long term competitive alternative. The strike is further weakening the Guilford System.

SENATOR ANDREWS: How does this (BMWE Strike against Guilford) affect the proposed divestiture of Conrail lines to Guilford?

ANSWER: Conrail has no non-public information with respect to Guilford's plans in response to the ongoing labor dispute.

SENATOR ANDREWS: It has been reported that Guilford officials link the strike with labor opposition to the departments plan to sell Conrail. Do you know if this is true?

ANSWER: No, we do not know whether this is true.

SENATOR ANDREWS: It is the Committee's understanding that the other railroad that is to acquire track under the divestiture, Pittsburgh and Lake Erie (P&LE), has been acquired by another company that does not plan to keep it. Is that true?

ANSWER: The Beloit Corporation, which owns the P&LE, has been acquired by Harnischfeger Corporation, according to the Wall Street Journal.

The Harnischfeger Corporation agreed to purchase the Beloit Corporation provided that Beloit "shall have completed the sale, transfer or other disposition of a sufficient ownership interest so as to have less than a majority direct or indirect ownership in Presidio Insurance Company ("Presidio"), Pleco Inc., P&LE Car Management Company, P&LE Coal Logistics Company, P&LE Land Company, the Pittsburgh and Lake Erie Railroad Company, Mahoning State Line Railroad Company, Monongahela Railway Company, Montour Railroad Company, Youngstown and Southern Railway Company, and Pittsburgh, Chartiers and Youghiogheny Railway Company."

SENATOR ANDREWS: It has been reported that it is thought that P&LE's creditors will take control of the carrier. Are you familiar with that situation?

ANSWER: We have no information as to whether or not P&LE's creditors will take control of that carrier.

SENATOR ANDREWS: If you accept the Department's assertion that Conrail's long-term future is uncertain, what reason is there to believe that P&LE or Guilford could survive?

ANSWER: It is the ultimate hypocrisy to assert that Guilford and P&LE can be viable, but that Conrail cannot.

SALE PROCESS

SENATOR ANDREWS: What is the difference between that merger situation [Norfolk & Western-Southern Railway] and the proposed merger between Conrail and Norfolk Southern? Please elaborate.

ANSWER: The major difference is that one merger (N&W/Southern) was primarily an end-to-end coupling of two distinctly different service areas while Conrail and NS is essentially a parallel merger. In the Midwest states of Ohio, Indiana, Illinois and Michigan, Conrail and Norfolk Southern serve more than 100 common points and have duplicate lines and facilities. In areas where Conrail/NS could provide end-to-end service between the

Northeast and the South, there are already run-through train operations with CSX and similar service can be inaugurated with NS should they wish to participate.

The linking of end-to-end points can have a positive competitive impact on rail customers by expanding through service capability and quality at lower costs. However, parallel combinations tend to reduce competition, resulting in fewer routing and pricing choices for those who must use rail freight service. The U.S. Justice Department recognized the problem when it wrote in January of 1985 that "the proposed merger [of NS and Conrail] would violate both Clayton Act and ICC merger review standards."

In marked contrast, the Norfolk & Western and Southern Railway merger, announced formally in December, 1980, was quickly cleared by the Department of Justice as not being anti-competitive or in violation of the Clayton Act.

A second major difference involves the right of the public to information that explains in advance the changes that are likely to follow from any merger. For example, how quickly will revenues and profits increase over a three year period? What duplicative assets will become surplus and either be consolidated or abandoned? How would the employees fare over the first three years, that is, what jobs at which work locations will become surplus, or subject to relocation? Which routes have increased traffic and which will lose business? It is ironic that while the government insists on full disclosure of such information in mergers of private railroads, this requirement seems to be waived when Norfolk Southern seeks control of a railroad owned by the public. It has been almost three and a half years since NS announced its intentions, and the public still knows next to nothing about the impacts of the proposed takeover of Conrail.

In summary, I would say that the N&W/Southern merger was pro-competitive with all facts on the future operations of the combined road available for public review, while the proposed Conrail/NS merger is anti-competitive, harmful to the areas and shippers we serve, and the public has not been permitted to know the facts concerning the future operations of the new combined company. This creates serious concerns as to line abandonments, facility consolidations, and employee layoffs as well as future service in many areas.

SENATOR ANDREWS: Mr. Crane, because of the "sale process" has Conrail not undertaken major capital investments or performed other activities that it otherwise would?

ANSWER: No. Conrail's capital programs have been geared solely to the requirements of the railroad without regard to the sale process.

Each year's capital budget is developed on a priority basis, to replace or upgrade track and facilities necessary to maintain Conrail's service standards; to satisfy legal, environmental, and safety requirements; and to provide improvements of all types to either upgrade service to our shippers (obtain new business or protect existing traffic) or to generate cost savings from projects yielding a high returns on investment. The programs to reduce our costs are largely discretionary and vary from year to year based on traffic levels, competitive requirements, and earnings.

In 1984 and 1985 Conrail expended more in capital programs than was budgeted. 1984: $550 million spent vs $517 million Budget. 1985: $569 million spent vs $557 million Budget.

SENATOR ANDREWS: Has the specter of the "sale" prevented or hindered Conrail in development of markets or instituting service?

ANSWER: Not to date. Conrail has been successful in differentiating its product from that of other railroads in the region. Creation of the automotive/intermodal premium service network has successfully increased revenues in a number of key areas such as U.S. Postal Service, General Motors, Ford and Chrysler. This progress has been possible only because Conrail's customers have perceived it as a businesslike enterprise operated free from political influence.

SENATOR ANDREWS: Recently the United Transportation Union (UTU) started to encourage the Norfolk Southern, the CSX Corporation and Union Pacific to buy equal amounts of Conrail shares, allow the employees to keep their 15 percent and sell remaining shares to the public. Has Conrail taken a public or official position on this proposal?

ANSWER: Conrail management has not taken any official position on this proposal.

We have not taken a postion on the proposal because we do not have sufficient information to make an informed judgment at this time.

SENATOR ANDREWS: Conrail's market value has been set by the Department at $1.2 billion; Morgan Stanley offers $1.4 billion; and the most recent offer from Allen & Company and First Boston is $1.8 billion. Do you know if Norfolk Southern is willing to increase their offering price, to meet these offers and cover the negative tax situation that the Congressional Budget Office estimates will cost the U. S. Treasury?

ANSWER: I have no knowledge as to whether Norfolk Southern plans to increase its offer and, if so, to what extent.

SENATOR ANDREWS: Assuming that Conrail stays independent, when does Conrail start to pay back the U.S. Treasury for the debt instruments held on Conrail? How much will be paid back from 1987 through 1992?

ANSWER: The Financing Agreement provides that payments would be required out of "Cash Available for Restricted Cash Payments" in the following sequence, once $500 million is accumulated in retained earnings.

1. Interest on Debentures
2. Dividends on Series A Preferred Stock.
3. Dividends on Series B Preferred Stock.
4. Redemption of Debentures.
5. Redemption of Series A Preferred Stock.

Under this formula and based on Conrail's projections for 1986 in its Budget and for 1987 - 1989 in its Five Year Outlook dated June 6, 1985, the first required payment would be made for 1987. Total payments through 1989 could be as much as $900 million. No projections have been made beyond 1989.

CONRAIL/NORFOLK SOUTHERN OPERATING PLANS

SENATOR ANDREWS: At last year's hearing one of the Committee's major concerns was that Conrail and USRA had not seen and therefore could not comment on the operating plans and the pro forma financial estimates of the two merged companies. Have you seen those studies necessary for you to comment on the proposd operating plans, and financial statements?

ANSWER: I have not seen Norfolk Southern's detailed operating plans or its pro-forma financials for a merged NS-Conrail and therefore am unable to comment on either.

SENATOR ANDREWS: Will a combined Norfolk Southern/Conrail be able to achieve cost savings that in turn could be passed on to the shippers that use the lines?

ANSWER: Without seeing Norfolk Southern's operating plan, which would include proposed track and facility abandonments, consolidations, and anticipated traffic patterns, I cannot project their cost savings. However, I do believe their published merger-related force reductions of about 1800 employees to be greatly understated. In the areas where we have duplicate lines and facilities, I would think the NS figure to be on the low side. In Philadelphia, it is hard for me to believe that only 50 or so employees will be laid off or transferred, considering the consolidation of Marketing, Finance, Accounting, Systems, Purchasing, and other Administrative functions of two very large railroads involving thousands of people. From an efficiency standpoint, this does not make sense. When the N&W merged with Southern Railway, it was alleged that jobs would be created. The facts indicate that over 3,700 jobs have been lost since that merger.

As to whether or not any projected cost savings will accrue to Conrail's shippers, I can only say that when there are several major railroads competing for business in an area, rates go down. When there is only one mega-railroad in an area without viable competition, rates usually go up and certainly don't go down.

SENATOR ANDREWS: What is the amount of total savings that are expected from this merger?

ANSWER: I have no way of developing these figures without detailed information on how NS plans to combine and operate the two merged systems.

SENATOR ANDREWS: How are these savings to be achieved? (Abandoning lines, reductions in the work force)
ANSWER: Only Norfolk Southern can answer how their projected savings will be achieved. I would assume that line abandonments and reductions in work force would be part of the savings picture.

SENATOR ANDREWS: Have you seen or been asked to comment on any propose operating or marketing plan for the combined Conrail - Norfolk Southern?
ANSWER: No, I have not.

JUSTICE DEPARTMENT REVIEW

SENATOR ANDREWS: The Justice Department through a contract with R. L. Banks and Associates is still looking at this proposed merger. Have either of you been in contact with Banks on the work they are doing for the Justice Department?
ANSWER: Conrail has responded to numerous requests by Banks & Associates and the Justice Department for information and data. In addition, at the Justice Department's request, Conrail prepared analyses of the most recent divestiture plans put forward by The Pittsburgh and Lake Erie Railroad and Guilford Transportation Industries. (Copies of those analyses are attached.)

SENATOR ANDREWS: What was the extent of that involvement?
ANSWER: At Conrail's request, members of the Justice Department and Banks & Associates' staff met with Conrail staff to discuss Conrail's analyses. Finally, Conrail has agreed to Banks & Associates' requests to view the Conrail lines proposed for divestiture.

SENATOR ANDREWS: The Justice Department review was to be 50 days from the date of the contract award, which was February 14. The estimated completion date is now sometime in May. Do we know if the recent Guilford strike will hinder the study now being conducted by Banks for the Justice Department?
ANSWER: Conrail has no non-public information about the status of the Banks study, or the Justice Department analysis. On April 24, Mr. Ginsburg wrote Chairman Dingell, of the House Energy and Commerce Committee, and advised that Bank & Associates would complete its study by June 17.

SENATOR ANDREWS: Is the House Committee, Energy and Commerce, which has jurisdiction over the sale waiting for this review by Justice before proceeding?
ANSWER: Conrail has no non-public information of the Committee on Energy and Commerce to pursue its review of the proposed rule.

SENATOR ANDREWS: What happens if Justice finds that the proposed divestitures do not adequately address the anti-competitive aspects of the sale?

ANSWER: As to the prospects for the proposed Conrail-NS merger should the latest divestiture plan prove unsatisfactory, DOT has repeatedly testified before Congress that meeting the Justice Department's requirements is an absolute prerequisite to consummation of such a merger. Federal Railroad Administrator Riley testified that:

> The Justice Department has been extremely tough in insuring ... the substitution of equivalent service. If it can't be done and if the shippers in those areas cannot be protected to Justice's satisfaction ... the Secretary made it clear from the beginning that she would not go with the NS plan.

(Hearing to Consider the Sale of Conrail, before the Northeast-Midwest Senate Coalition, January 24, 1985, Tr. at 35-36.)

EMPLOYEE PROTECTIONS

SENATOR ANDREWS: Conrail has made projections that there would be significant job losses if there were a Conrail/Norfolk Southern merger. On what do you base that projection?

ANSWER: Historically, following any parallel railroad merger, there have been major reductions in employees and facilities; for example, you do not need people selling freight to Ford or GM or Chrysler, or two Marketing Departments developing packages for shippers or two Finance Departments or two yards in the same city or two shops in the same area. We cannot attempt to estimate the exact numbers involved beyond our intuition that the numbers given by Norfolk Southern are low, because Norfolk Southern has not published an operating plan. Even the merger between the Norfolk and Western and the Southern railroads that produced Norfolk Southern, which was supposed to result in the creation of 75 new jobs, resulted in the loss of 3776 jobs with the same amount of freight.

SENATOR ANDREWS: In last years report accompanying the fiscal year 1986 bill (page 329), Conferee's directed "The Secretary to conduct discussion with Conrail's Board of Directors and Management to make all necessary arrangements for Conrail to assume full financial responsibility or payments due its employees under Sections 701 and 702 of the Regional Rail Reorganization Act of 1973." Have those discussions taken place. If not, why not. If so, please elaborate as to the progress made in those discussions.

ANSWER: In a letter dated February 27th, 1986, John H. Riley of the FRA contacted Chairman L. Stanley Crane informing Mr. Crane of the appointment of the negotiating team for the FRA and indicating their readiness to meet at our earliest convenience. Conrail responded in a letter dated March 6, 1986 indicating that Mr. Riley should contact R. E. Swert, Vice President-Labor Relations to arrange for a meeting. On April 14, 1968, Conrail and FRA negotiating committees met in Washington, D.C. to discuss the state of the Section 713 Fund and to review alternatives. On April 28, 1986, the two committees met again in Philadelphia to discuss the funding for the Section 701 Program. We believe we are close to agreeing upon a plan for Conrail's assuming the responsibility for funding the Section 701 program.

SENATOR ANDREWS: On February 5, the Administration proposed a deferral in 1986 of $4.565 million in authorized Conrail labor protection funds. Available Conrail labor protection budget authority ending the year was approximately $7.2 million. Therefore leaving a balance of $2.635 million. What dollar level of labor protection claims has Conrail received in fiscal year 1986? What dollar level of claims has Conrail forwarded to FRA? What level of dollar claims has FRA honored?

ANSWER: The $7.2 million was authorized for expenditures in the Section 701 Labor Protection Program. The 701 protection claims are submitted directly to the Railroad Retirement Board by the individual making the claim and, although certain pieces of information are verified by Conrail, the funding is handled directly between the Department of Transportation and the RRB. The RRB informs us that between October 1, 1985, and March 31, 1986, they have paid $3,925,008 in 701 claims.

Section 702 funding reimbursements for train and engine service employee separations are handled between Conrail and the FRA directly. Under the current procedure, Conrail pre-certifies the eligibility of employees, pays their separation and seeks reimbursement from the Department of Transportation. So far in fiscal year 1986, Conrail has paid out $2.6 million in separations under the 702 program for which it has sought reimbursement for approximately $1 million.

SENATOR ANDREWS: Are labor protection claims still being received by Conrail?

ANSWER: Again the answer must distinguish between labor protection claims under 701 which are handled through the Railroad Retirement Board, and separations which are handled by Conrail with the Department of Transportation. In both cases, however, the answer is "yes." Protection claims are still being received by the Railroad Retirement Board and Conrail is still separating train and engine service employees.

SENATOR ANDREWS: What is Conrail's estimate of Section 701 and Section 702 labor protection claims for fiscal year 1986?

ANSWER: Although at the end of calendar year 1985, the Railroad Retirement Board experienced a decline in claims versus the previous calendar year, that reduced level of claims has not continued into calendar year 1986. Claims for the first 3 months of 1986 have been comparable to the first 3 calendar months of 1985, therefore, our projection for the claims levels under Section 701 for the remainder of the fiscal year 1986, are based on the 1985 experience. We estimate, therefore, that including administrative expenses, the cost of 701 from April 1 through September 30, 1986, will be $3.85 million.

Under Section 702 funding, we anticipate spending $8.25 million to separate train and engine service employees before the end of fiscal year 1986.

SENATOR ANDREWS: On what grounds did the administration propose the deferral of protection payments?

ANSWER: We don't know the rationale behind the administration's deferral of the protection payment.

SENATOR ANDREWS: What are the present outstanding fund balances in the Section 701 and the Section 702 program?

ANSWER: Based on our most recent information from the FRA, approximately $1.7 million remains in the Section 701 fund and approximately $11.06 million remains in the Section 702 program fund.

SENATOR ANDREWS: What is Conrail's estimate of these fund balances at the end of fiscal year 1986? (including the fund balance at the Railroad Retirement Board, or at the Federal Railroad Administration)

ANSWER: We anticipate that the funds will be exhausted.

EMPLOYEE STOCK OPTION PLAN (ESOP)

SENATOR ANDREWS: Of the various competing proposals, which in your estimation best protects the interests of Conrail's employees in compensation for their Employee Stock Option Plan (ESOP) ownership? Please Elaborate.

ANSWER: Both the Morgan Stanley and Allen/First Boston proposals offer Conrail's employees substantially better benefits than under the Norfolk Southern proposal.

NS has agreed to pay Conrail employees a total of $375 million, however this includes the full purchase of the ESOP and also has to satisfy prior employee wage claims and any other benefits. If satisfaction of wage claims were the same as under the Morgan Stanley and Allen/First Boston proposals, namely $200 million for Agreement employees, this would leave only $175 million to cover the purchase of 4,411,760 ESOP shares or $39.67 per share. This would not allow for any Non-Agreement compensation for prior salary hold-downs or other benefits.

Morgan Stanley and Allen/First Boston have offered to purchase ESOP shares at the price offered the Federal Government, which under the current proposals would equal

$56 per share and $62 per share respectively. Both of these are substantially higher than NS.

Alternatively, if Norfolk Southern should agree to buy the ESOP shares at their own $1.2 billion purchase price, the value of each share would be $48, still lower than Morgan Stanley or Allen/First Boston. However, with a fixed $375 million employee package, all other benefits, including the satisfaction of wage claims, would be substantially reduced and well below the offer by the other two investment groups.

SENATOR ANDREWS: The Memorandum of Intent signed by the Secretary with Norfolk Southern contains a condition precedent to the sale that Norfolk Southern or Conrail negotiate "appropriate arrangements" with Conrail's employees to acquire the ESOP holdings. Have these "appropriate arrangements" been negotiated by either Conrail or Norfolk Southern?

To the best of my knowledge, there have been no "appropriate arrangements" agreed to between our employees and Norfolk Southern. The Railway Labor Executives Association is on record as opposing a Norfolk Southern purchase of Conrail and supports an independent company.

SENATOR ANDREWS: Have any agreements been reached in regard to the options and wage claims of Conrail employees?.

ANSWER: The only signed agreement that I am aware of, is between Morgan Stanley, the Railway Labor Executives Association on behalf of the Agreement employees, and Conrail.

SENATOR ANDREWS: In Exhibit A of the Memorandum of Intent, Norfolk Southern proposes a $375 million lump sum payment for the ESOP and to satisfy employee wage claims. Do you know how this money breaks down between the ESOP and wage claims?

ANSWER: No. I have not seen a breakdown of how these funds will be allocated.

SENATOR ANDREWS: What is the present value of the employee's ESOP?

ANSWER: The ESOP only has value when Conrail's shares are traded on the market or there is a specific agreement to purchase the shares.

As I stated before, there is no specific allotment for the ESOP out of the $375 million offered the employees by Norfolk Southern, and therefore under that proposal it is not possible to determine a value without more information. For the Morgan Stanley and Allen/First Boston proposals, there is a specific offer to buy any and all of the ESOP shares, at the election of each employee, at a price equal to that paid per share to the U.S. Government. If these offers remain unchanged, the value would be $56 and $62 per share respectively.

SENATOR ANDREWS: Is the ESOP more valuable now or does the ESOP value increase in later years? (measured either in percentage of Conrail Stock or dollar value)

ANSWER: This depends on two factors. First, if the agreement price for the purchase of ESOP shares equals the price offered the U.S. Government, then higher offers by potential or present bidders would increase the ESOP value. Also if the shares of Conrail are traded on the market, the value for those shares still retained by Conrail employees will go up or down based on the trading price. This is influenced by the earnings and perceived strength of Conrail in the future as well as general economic conditions nationally and within the industry.

Should the ESOP remain as is without any sale of Conrail, then each employee would be vested with additional shares of Conrail Equity Corporation stock for each year of service until 1991 at which time 100% of the 4,411,760 shares of Conrail Equity Corporation stock would be vested and converted to Conrail stock. The value at that time, however, is uncertain since any sale value would have to come through private offers unless a market has been made for the stock on a public basis.

SENATOR ANDREWS: It appears as though Norfolk Southern under the Memo of Intent, can terminate the existing Conrail pension plan after the sale. Is that true?

ANSWER: While we have no knowledge of Norfolk Southern's intent, they could terminate the existing Conrail pension plan after the sale, thereby releasing cash for other purposes in the amount of any current overfunding.

SENATOR ANDREWS: How much is in the pension fund?

ANSWER: See the chart below:

Supplemental Pension Plan
Funded Status
March 31, 1986
($ in Millions)

	Termination Basis		
	Interest Rate		Projected Service
	Actuarial	Market	and Salary Basis
Market Value of Assets	$ 703	$ 703	$ 703
Estimated Present Value of Liability	335	345	530
Surplus	$ 368	$ 358	$ 173

SENATOR ANDREWS: If terminated, could Norfolk Southern use those funds for purposes other than employee pensions? Can Conrail presently use those funds for other purposes? Please elaborate.

ANSWER: A most likely scenario would be for Norfolk Southern to merge the pension funds of NS and Conrail. By doing this, NS could reduce future payments into the combined fund by the amount of any over funding in Conrail's Supplemental Pension Plan. This would free up over $360 million on an actuarial basis as of March 31, 1986 and this cash could be utilized for other purposes.

We have consistently taken a conservative approach to the funding of our pension plan. Conrail's overfunding has become so significant however, that currently no payments will be required for ERISA compliance and IRS regulations preclude any further tax deductible contribution to the plan at this time. Funding requirements could change in the future either as a result of substantially reduced market values of pension fund assets or due to actuarial changes effecting the Plan's liability for the employees covered. Such factors would effect the amount of any future payments.

CONRAIL BOARD OF DIRECTORS

SENATOR ANDREWS: When does the current term of the Conrail Board of Directors expire? (It is the Committee's understanding that these terms expire at the end of this month).

ANSWER: Conrail's Directors are elected at the Annual Meeting of Shareholders, which under its Bylaws is held on the third Wednesday of April. Under Pennsylvania law, the terms of Directors end on that date, except that a Director continues to serve until his successor is elected and qualified.

SENATOR ANDREWS: Will the existing Board members be reappointed to fill the expired terms?

ANSWER: Whether Board members are reappointed is up to the shareholders --in the case of Conrail, the United States Railway Association with respect to Directors representing the debentures and the Series A preferred stock, and the Department of Transportation with respect to Directors representing the common stock and the Series B preferred stock. The Department of Transportation's Directors were re-elected at the April Shareholder's meeting, with the exception of Daniel Burke, who was replaced by Claud Gingrich. USRA was not present at the Shareholder's meeting in person or by proxy, the existing USRA directors, under Pennsylvania Law, continue to sit until their successors are elected and qualified.

SENATOR ANDREWS: Is it your recommendation that the existing Board members be reappointed?

ANSWER: In my view, the Conrail Board has served with distinction. It may be, however, that the shareholders may desire to change some members of the Board of Directors. That is a matter for decision by the shareholders.

QUESTION SUBMITTED BY SENATOR SPECTER

VALUE OF CONRAIL

SENATOR SPECTER: The bidding process for the sale of Conrail was begun two full years ago. Certainly your testimony today indicates the continued ability of Conrail to generate profits. Given this profitability, and the stability of freight traffic, how have the past two years' activity impacted on the value of Conrail to the buyer?

ANSWER: In my opinion, Conrail is worth substantially more to any buyer today than it was is mid-1984. Conrail has higher profits, $400 million more in cash, greater funding surplus in its pension fund (now $360 million), and now, with a longer track record, has been adjudged by most to be a sound viable company for the future.

From a market standpoint, values of the major railroad holding companies (CSX, NS, SFSP, BN, UP) have increased 58% since Norfolk Southern's offer in June, 1984, or by $10 billion, while the offering price for Conrail by NS has remained unchanged. Had Conrail been publicly traded in 1984, market forces would have substantially increased its value and therefore a purchaser today should likewise be paying substantially more.

At the time of the bids to purchase Conrail, Secretary Dole could more easily state that the company's earnings had only been substantial for two years - profits of $39 million in 1981, $174 million in 1982, and $313 million in 1983. While there was every indication to us that our program to improve service and cut costs was working and projected viability in the future; to others less familiar with our operations, Conrail could still be considered in a trial period and might need long-term help. USRA, as the most informed outside agency responsible for monitoring Conrail's performance, had already stated that Conrail was viable over the required prior period and would be viable in the future - the two tests imposed by NERSA.

Now two years later with the help of our employees, our costs have been further reduced, we have provided our shippers with innovative pricing and service packages, and our profits rose to $500 million in 1984 (paying full wage scales for half a year) and to $442 million in 1985 (at national wage levels for the full year). Along with profits, Conrail's cash rose in the last two years from $533 million at the end of 1983 to $910 million by December 31, 1985, a remarkable achievement considering we substantially increased our capital spending during this period.

The viability track record is now established and few, except Norfolk Southern and the Department of Transportation, believe Conrail is still fragile and in need of help. Wall Street also has confidence in Conrail's future as indicated by the two investor groups willing to pay the Government substantially more money than Norfolk Southern and on the basis that Conrail can and will be a successful independent competitive railroad. By any standard, Conrail today is worth substantially more than it was two years ago.

SUBCOMMITTEE RECESS

Senator LAUTENBERG. We will now adjourn this hearing. There is another hearing scheduled for Wednesday, May 7, in the same room. We are going to hear from UMTA and the Washington Metropolitan Area Transit Authority.

I thank you for being here.

[Whereupon, at 11:15 a.m., Wednesday, April 23, the subcommittee was recessed, to reconvene at 10 a.m., May 7.]

DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, MAY 7, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:07 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Mark Andrews (chairman) presiding.

Present: Senators Andrews, Cochran, Abdnor, Kasten, D'Amato, Chiles, Lautenberg. Also attending: Senator Sasser.

DEPARTMENT OF TRANSPORTATION

URBAN MASS TRANSPORTATION ADMINISTRATION

STATEMENT OF RALPH L. STANLEY, ADMINISTRATOR

ACCOMPANIED BY:
ALFRED A. DELLIBOVI, DEPUTY ADMINISTRATOR
JOSEPH A. LA SALA, CHIEF COUNSEL

OPENING REMARKS

Senator ANDREWS. The subcommittee will come to order. This morning our first witness will be Mr. Ralph L. Stanley, the Administrator of the Urban Mass Transportation Administration [UMTA].

Good to have you here, Mr. Stanley. I understand you have a prepared statement. That statement is already in the record. You can summarize it in any way you wish.

Mr. STANLEY. Thank you very much, Mr. Chairman. In the interest of time, I do have an opening statement that outlines our budget and legislative priorities.

Senator ANDREWS. Mr. Stanley, if you will wait a minute, I would like to ask unanimnous consent that an introductory statement by the Senators from Wisconsin, New York, and Florida be included in the record at this point.

[The statements follow:]

STATEMENT OF SENATOR ROBERT W. KASTEN, JR.

Thank you, Mr. Chairman. I am pleased to be here this morning because of the important role that mass transit has in the State of Wisconsin, as well as across the Nation.

According to a 1985 operating report by the American Public Transit Association, the Milwaukee County Transit System ranked first in the number of passengers per population, among transit systems serving populations between 1 million and 2.4 million. Milwaukee also ranked second among the same group in expense per passenger and expense per bus mile. Finally, Milwaukee County Transit System ranked third in passengers per bus miles, giving MCTS an overall ranking of first.

Mr. Chairman, it is obvious from these statistics that Milwaukee has one of the most efficient mass transit systems in the Nation. Milwaukeeans have obviously taken pride in how they use and operate their system and serve as a model to transit systems nationwide. I would ask for unanimous consent to have these statistics printed in the record.

Mr. Chairman, I have been a supporter of the Urban Mass Transportation Administration in the past, and I will continue to support funding—especially in the important area of operating expenses, which I am sure will be addressed in the reauthorization bill that my friend from New York, Mr. D'Amato, is currently working on.

Again, thank you, Mr. Chairman.

[The information follows:]

MILWAUKEE COUNTY TRANSIT SYSTEM
COMPARISON OF 1984 OPERATING STATISTICS
OF EIGHTEEN TRANSIT SYSTEMS SERVING POPULATIONS OF 1,000,000 to 2,400,000

System	Urban Area Population	Unlinked Psgrs. Areawide	Total Expense ($000's)	Total Bus Miles	Psgrs./ Pop.	Rank	Expense Per Psgr.	Rank	Expense Per Bus Mile	Rank	Psgrs. Per Bus Mile	Rank	Total Score	Overall Ranking
Milwaukee	1,207,008	81,098,869	62,868	21,093,614	67.2	1	.78	2	2.98	2	3.8	3	8	1
Atlanta	1,613,357	91,634,000	77,661	28,937,325	56.8	4	.85	3	2.68	1	3.2	6	14	2
New Orleans	1,078,299	71,525,222	49,045	12,079,269	66.3	2	.69	1	4.06	15	5.9	1	19	3
Baltimore	1,755,477	106,100,000	97,958	23,668,000	60.4	3	.92	4	4.14	16	4.5	2	25	4
Buffalo	1,002,285	35,116,450	35,578	10,304,214	35.0	11	1.01	5	3.45	8	3.4	4	28	5
Minneapolis	1,787,564	74,414,569	91,622	27,737,099	41.6	8	1.23	8	3.30	5	2.7	8	29	6
Cincinnati	1,123,412	37,856,295	39,613	11,483,365	33.7	12	1.05	6	3.45	8	3.3	5	31	7
Portland	1,026,144	49,460,400	80,619	24,401,470	48.2	5	1.63	14	3.30	5	2.0	14	38	8
San Diego	1,704,352	26,648,107	33,170	10,820,565	15.6	17	1.24	9	3.07	3	2.5	11	40	9
Miami	1,608,159	64,132,677	84,344	24,008,422	39.9	9	1.32	10	3.51	13	2.7	8	40	10
Pittsburgh	1,810,038	83,063,463	117,802	32,339,450	45.9	6	1.42	11	3.64	14	2.6	10	41	11
Dallas	2,451,390	42,490,950	48,529	13,911,714	17.3	15	1.14	7	3.49	12	3.1	7	41	12
Seattle	1,319,535	57,835,880	97,644	31,510,000	43.8	7	1.69	15	3.10	4	1.8	17	43	13
Denver	1,352,070	50,738,777	86,619	26,019,647	37.5	10	1.71	16	3.33	7	2.0	14	47	14
St. Louis	1,848,590	53,543,903	81,991	23,595,453	29.0	14	1.53	12	3.47	11	2.3	12	49	15
Kansas City	1,097,793	18,390,257	28,384	8,196,154	16.8	14	1.54	13	3.46	10	2.2	13	52	16
San Jose	1,243,952	38,521,548	90,953	20,709,523	31.0	13	2.36	17	4.39	17	1.9	16	63	17

Data Source - APTA 1985 Operating Report
Volumes I & II

MERICAN PUBLIC TRANSIT ASSOCIATION COMPARISON OF ACTUAL AND PROPOSED FY 1985/1986/1987 FUNDING LEVELS FEBRUARY 17, 1986

*** (URBAN MASS TRANSPORTATION PROGRAM FORMULA FUNDING ONLY) ***

		SECTION 9 AND 18 FUNDING FY 1985 ACTUAL (a)		SECTION 9 AND 18 FUNDING FY 1986 CONTINUING RESOLUTION (b)		SECTION 9 AND 18 FUNDING FY 1986 WITH G/R/H REDUCTIONS (c)		ADMINISTRATION FY 1987 BLOCK GRANT PROPOSAL (d) (e)		FY 1987 BLOCK GRANT PROPOSAL COMPARED TO FY 1985 ACTUAL FUNDING (f)	
STATE	URBANIZED AREA/ STATE PORTION	TOTAL (DOLLARS)	OPERATING CAP (DOLLARS)	TOTAL (DOLLARS)	OPERATING CAP (DOLLARS)	TOTAL (DOLLARS)	OPERATING CAP (DOLLARS)	TOTAL (DOLLARS)	OPERATING CAP (DOLLARS)	TOTAL (PERCENT)	OPERATING CAP (PERCENT)
(COLUMN A)	(COLUMN B)	(COLUMN C)	(COLUMN D)	(COLUMN E)	(COLUMN F)	(COLUMN G)	(COLUMN H)	(COLUMN I)	(COLUMN J)	(COLUMN K)	(COLUMN L)
WISCONSIN:	APPLETON	1,472,307	807,339	1,296,448	807,339	1,240,701	772,623	650,218	420,698	-55.84%	-47.89%
	BELOIT, WI PORTION	383,770	153,508	337,931	135,172	323,400	129,360	169,485	70,437	-55.84%	-54.12%
	DULUTH-SUPERIOR, WI PORTION	172,554	116,608	151,943	116,608	145,409	111,594	76,205	60,764	-55.84%	-47.89%
	EAU CLAIRE	573,230	229,292	504,761	201,904	483,056	193,222	253,157	105,211	-55.84%	-54.12%
	GREEN BAY	1,113,255	623,292	980,283	623,292	938,131	596,490	491,649	324,793	-55.84%	-47.89%
	JANESVILLE	465,039	186,016	409,493	163,797	391,885	156,754	205,376	85,353	-55.84%	-54.11%
	KENOSHA	1,064,126	595,233	937,022	595,233	896,730	569,638	469,952	310,171	-55.84%	-47.89%
	LA CROSSE, WI PORTION	617,347	340,004	543,608	340,004	520,233	325,384	272,640	177,173	-55.84%	-47.89%
	MADISON	4,346,370	1,153,677	3,653,922	1,153,677	3,496,803	1,104,069	1,883,132	0	-56.67%	-100.00%
	MILWAUKEE	17,224,234	6,396,662	15,701,066	6,396,662	15,025,920	8,121,606	8,091,902	0	-53.02%	-100.00%
	OSHKOSH	552,981	347,904	486,931	347,904	465,993	332,944	244,215	181,290	-55.84%	-47.89%
	RACINE	1,354,801	765,670	1,192,978	765,670	1,141,680	732,746	598,324	398,985	-55.84%	-47.89%
	SHEBOYGAN	577,265	230,906	508,314	203,326	486,456	194,583	254,939	105,952	-55.84%	-54.11%
	WAUSAU	454,554	181,822	400,260	160,104	383,049	153,220	200,746	83,429	-55.84%	-54.11%
	WISCONSIN, RURAL (SEC 18)	1,908,239	1,908,239	1,666,544	1,666,544	1,594,883	1,594,883	845,797	868,423	-55.68%	-54.49%
	WISCONSIN, TOTAL	32,280,072	14,036,171	28,771,504	13,677,236	27,534,329	13,089,115	14,707,739	3,192,679	-54.44%	-77.25%

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman. I am pleased to offer my remarks regarding the fiscal year 1987 budgets for the Washington Metropolitan Area Transit Authority and the Urban Mass Transportation Administration. I join you in welcoming WMATA General Manager Carmen Turner and UMTA Administrator Ralph Stanley to today's hearing.

Since I was elected to the U.S. Senate in 1980, I have been a strong advocate of the Federal mass transit program. This year is a critical one for transit because the program expires at the close of fiscal year 1986 and now urgently requires congressional reauthorization action. The administration's drastic proposal for reauthorizing the transit program and its conforming bare-bones budget request generally have met with little enthusiasm on the Hill. I do not believe that it has generated much support on this subcommittee either.

The Surface Transportation Assistance Act carefully balanced the competing, yet complementary, needs of our highway and mass transit programs. That landmark act, which dedicated one penny of Federal fuel taxes for transit projects, was the product of cooperation and compromise by all congressional supporters of surface transportation. It created a transit block grant (section 9) for capital and operating costs and funded it with general revenues. A discretionary capital program (section 3) funded by Federal gas taxes was established, as well.

When the STAA expires at the end of fiscal year 1986, the administration's goal is to restructure the program to minimize Federal aid to transit. Its proposal would eliminate all use of general revenue funds for transit. It also would treat the 17-year-old Washington Metro system like any other "new start or extension."

The National Capital Transportation Amendments of 1979 authorized $1.7 billion in Federal construction funds for the Washington Metrorail system. Since the administration now wants to delete funding for all but a few selected new start projects, no appropriation is requested for Washington Metrorail. DOT expects the system to initiate a dedicated source of local funding.

"Transit penny" funds ($1.1 billion) would be merged with moneys dedicated to highway use ($2.2 billion). A new $3.3 billion block grant would allocate these moneys to the States for use on either highway or transit projects. Under this proposal, States with little need for transit projects could use these scarce transit funds for highway projects. Transit-dependent States would face large burdens meeting their capital and operating needs.

This proposal would disrupt transit planning and would work severe hardships on transit-dependent communities. Highway interests also would be shortchanged. Even though they would gain access to the "transit penny," the overall available funds for highway projects would be reduced. Transit funding would be cut by at least $2.1 billion (more than 65 percent) by deleting general revenue funding. States that depend on Federal transit aid would find these funds in short supply and subject to invasion for highway projects.

The Department of Transportation's proposed fiscal year 1987 budget of $21.7 billion includes an overall cut of about 19 percent ($5 billion) from last year. More than 40 percent of this cut would be derived from huge reductions in Federal aid to public transit. The local effects of these cuts are devastating: For example, New York's Metropolitan Transportation Authority would lose $108 million in operating assistance and $303 million in vital capital aid.

Federal aid to mass transit is not a middle-class subsidy. As Congress has reaffirmed time and again, a Federal commitment to aid transit is both appropriate and desirable. Each year, when this subcommittee reviews the UMTA budget, I have stated that it is the poor, the elderly, and the handicapped who most heavily depend on reliable and affordable transit services to get to work, to school, and to carry on their daily lives. Transit is not a luxury, it is an important part of this Nation's transportation network.

The benefits of transit service are no more local than those of many other worthwhile Federal programs. Further, in the face of annual budgetary assaults on transit, Congress has repeatedly reaffirmed and recognized a commitment, rooted in sound public policy, to a balanced Federal transit program.

The STAA provided a formula for cuts in operating assistance. Transit agreed to "bite the bullet" by agreeing to cuts of 20 percent, 10 percent, and 5 percent. In fiscal year 1984, $875 million was available for operating assistance—an overall cut of 16 percent from the 1982 level. Despite the cooperation of transit in absorbing this cut, attempts were made again in fiscal year 1985 to slash the program by 38 percent to $545.5 million, with a total phaseout by 1989. Congress wisely rejected that proposal and funded the program at $875 million for fiscal year 1985 and at close to the same level in fiscal year 1986.

Transit must not be made the scapegoat for other programs that have failed to hold the line in fighting the deficit. As I have repeated many times, if other federally aided programs had taken the 20, 10, and 5 percent cuts that transit operating assistance took, we wouldn't have such a severe deficit problem.

I am concerned that this budget would force transit to bear the brunt of belt-tightening measures in a manner disproportionate to other programs that have either been frozen or increased. The Federal Government has made a tremendous investment in public transit. Without adequate funds, sorely needed maintenance and rehabilitation work will be further deferred and there will be an even more rapid decline in service and safety.

The creation of the Mass Transit Account in the Highway Trust Fund by the STAA was a clear reaffirmation of Congress' commitment to a Federal role in the Nation's transit program. As we rapidly approach the deadline for reauthorizing the program, Congress must act to ensure that it remains intact. It is only by creating safer, more reliable and efficient transit systems that we are able to increase ridership and to provide needed revenues.

The Senate budget resolution, as approved, provides for an overall cut of about 6 percent in transit funding. This reduction represents yet another sacrifice on the part of transit. However, the administration's proposed transit funding levels and programmatic changes would cripple our Nation's transit systems. That is not the way to go. Rather, our efforts should be directed toward providing stable levels of transit funding.

I will soon introduce legislation that would permit an additional $650 million per year to be spent on transit discretionary capital grants over a 4-year period. These funds are now available from the underutilized Mass Transit Account. To suggest that transit take a 65-percent cut in fiscal year 1987, on top of a 15-percent cut in fiscal year 1986, is not reasonable when what really needs to be done is to raise the authorization ceiling on the program to reflect the user fees being collected.

For fiscal year 1987, the Senate must make difficult budgetary choices with respect to all federally funded programs, including transportation. However, any necessary cuts must be made in a responsible manner that preserves the vast Federal investment that we have made to date in this Nation's transit systems.

Mr. Chairman, I thank you for this opportunity to offer my comments.

STATEMENT OF SENATOR LAWTON CHILES

Mrs. Turner, I would like to welcome you and your staff to the hearing this morning. Since the administration has requested no further funding for the WMATA, I am sure that you are fully prepared to present the opposite side of this issue to the committee. We need to find out what the impact of a no-funding decision would be on a transportation system that so many residents and visitors depend on. If the committee does not agree with this approach, we need to get the facts so we can settle on an appropriate level of funding.

I look forward to hearing your testimony today.

STATEMENT OF MR. STANLEY

Senator D'AMATO. Thank you very much, Mr. Chairman. I am sorry I am not going to be able to stay for the balance of this hearing, but I do have some questions I would like to leave for the record if that meets with the chairman's approval.

Senator ANDREWS. Those questions will be submitted for the record. We appreciate the contribution of the Senator from New York.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator ANDREWS. Go ahead, Mr. Stanley.

PREPARED STATEMENT

Mr. STANLEY. I would like to submit my opening statement for the record in the interest of time and, if it is all right with the subcommittee, proceed directly to the questions you may have.

[The statement follows:]

STATEMENT OF RALPH L. STANLEY

Mr. Chairman and distinguished members of the Subcommittee, I appreciate this opportunity to appear before you today to discuss our fiscal year 1987 budget proposal.

Mr. Chairman, last year I came before you to argue that we can no longer afford to spend tax dollars from the General Fund of the Treasury of the United States to fund programs that accrue benefits locally. This year, thanks to the commendable action of Congress in making the historic Gramm-Rudman-Hollings Amendment a reality, our message becomes even more urgent. In order to meet the deficit reduction goals specified in this legislation, we believe that the priorities of the UMTA program must take a new direction.

We are proposing legislation that will reduce transit costs, strengthen local decisionmaking and improve quality through the introduction of competitive bidding of transit services and direct private investment in transit projects. This legislation would provide local officials with the flexibility to become more innovative and efficient in the expenditure of funds.

Because of the dynamic nature of our urban areas, a program with increased flexibility would make sense at this time. In the last 20 years, the dominant urban transportation demand has shifted from a traditional, focused, central business district orientation to a diffuse, suburban one. The suburbs have evolved from simply being the "home" of most urban Americans, to being their employment location as well. As an illustration, between 1970 and 1980, the central business districts defined by the Census for the nation's 25 largest cities collectively added less than 100,000 new jobs, going from about 2.5 million to about 2.6 million jobs. At the same time, those suburban portions of the twenty five largest urban areas added over 4.3 million jobs, going from 9.7 million to over 14 million for a gain of over 40 percent.

For example, the percentage of people taking transit to Washington's core for work is about 35 percent, while the percentage using transit for intra-suburban work trips is less than 3 percent, despite the excellent coverage of both bus and rail systems. Only about 400,000 jobs out of the region's 1.8 million are in the urban core. In fact, even where jobs are located within walking distance of suburban Metrorail stations, such as New Carrollton, less than 5 percent of employees use transit to go to or from work.

This means that if we are to alleviate rapidly growing suburban employment center congestion, as well as provide a basic level of public mobility for those that need it, we must begin to implement a creative mix of transportation services and facilities.

However, the ideal mix for a given situation can only be determined by objective analysis and cannot be implemented if planning and programming are distorted by a modal breakdown in the availability of Federal funds. Therefore, we propose legislation that would create a new Higway-Transit Block Grant program in which $2.2 billion from various FHWA programs would be combined with $1.1 billion from the Mass Transit Account for a total funding level of $3.3 billion.

The block grant proposal would provide a guaranteed cash flow which could be "leveraged" by local authorities using private sector financing mechanisms here-to-fore unavailable to the public transportation sector. Moreover, local officials in urban areas over 200,000 in population would be able to trade Federal transportation funds allocated in their area with another area in the same State, under the auspices of the governor. As a consequence, formula funds could be accumulated into large enough amounts to initiate large projects previously impossible to start with an all formula Federal resource allocation scheme. Because funds for large urbanized areas would be allocated to local officials and to the metropolitan planning organization, an institution without modal bias, it is unlikely that funds would be used to maintain or expand institutional authority at the expense of basic mobility objectives.

If the legislation we propose is passed, it would mean that for the first time since the inception of the UMTA program, State and local governments would be able to base transportation decisions on real needs, rather than choosing projects in order to maximize the availability of Federal highway or transit funding. Shifting responsibility at this time seems particularly appropriate since States are in sounder fiscal condition than the Federal Government. According to the National Governors Association, the 50 States had a surplus of almost $10 billion in 1985.

Also, States and localities have the resources necessary to generate needed revenue for transit. For example, the Municipal Assistance Corporation of New York (MAC) was formed when New York's credit had deteriorated to the point that they could not sell debt. MAC sold bonds to raise funds for New York. The bonds were serviced by various revenue commitments pledged to MAC. One of MAC's key advantages was that it was in a position to force financial responsibility on the city, since without the agreement of MAC, New York would not receive the funds it needed.

MAC is now enjoying a surplus and part of the surplus is going to fund transit. The Metropolitan Transit Authority will get $925 million over nine years for capital needs. This amount represents approximately 20 percent of the total amount of Federal capital assistance provided to New York City in 1985. This illustrates that surpluses in State and local revenue can be generated for transit.

The State of Mass Transit

During the debates on Federal operating subsidies in 1974, Congressman Conte of Massachusetts said on the floor of the House, and I quote, "I will tell you you are going to open Pandora's box. Of course, the only way I can prove this is if you are around and I am around 10 years from now, and I can say, let us go back and look at the record. Every union leader and every mass transit system in the country will put a gun at the heads of UMTA stating, look at it. That money is coming. You have nothing to worry about. It is coming from the Federal Government and therefore we ought to have that wage increase."

It has been ten years and Federal operating subsidies have distorted service decisions and have substituted for increases in local fare box revenues, allowing real user costs to decline, while State and local taxpayer contributions almost tripled--in part to match Federal dollars.

Between 1965 and 1983, transit costs increased more than twice the rate of inflation (APTA Statistics). This can be attributed to excessive labor compensation, declining labor productivity and a counterproductive attempt to adjust to changing mobility patterns.

For example, the total annual compensation for bus drivers is as much as 150 percent higher than for comparable public and private employees (Urban Institute study, 1986). The average annual starting salary for a WMATA bus driver is about $28,413 in total compensation compared with $21,201 for police officers, $19,000 for fire fighters and $18,670 for school teachers in Arlington County.

The related shift in home and job locations has resulted in a decline in total utilization of transit. Analysis of Section 15 data shows that the number of passengers per vehicle mile has dropped 7 percent since its recent peak in 1979, returning to the same downward trend experienced between the end of World War II and 1975.

The combination of these cost increases and drop in usage leads to an increase in the cost per rider of 129 percent in real terms since 1965 (APTA Data).

The user is paying only 40 percent of the operating cost of transit service and little if any direct capital costs. With declining Federal subsidies transit will reach a crossroad in the near future and will not survive unless changes are made.

Localities need to reexamine their needs and establish a competitive market for meeting them. Without a competitive atmosphere for acquiring transit service, local and Federal taxpayers have no assurance that the disciplines of the marketplace are working to ensure maximum efficiency and productivity.

Discetionary Grants/New Starts

Since 1982, funds provided under our Section 3 discretionary grant program have reached only 19 States. In fact, three-fourths of this account, the rail modernization and new starts funds--by far the largest portion of the discetionary grants account -- goes to only 20 cities. This is not an equitable distribution of the nationally collected gasoline tax. Regardless of the source of funding, there are inherent problems in allocating discretionary funds. Congress' well established tendency to earmark these funds has created enormous political pressure to fund inefficient and expensive systems.

From 1984 to 1986, Congress earmarked over $1.2 billion for new transit systems and extensions in 13 cities without sufficient regard to the relative merits of these systems or the ultimate cost to complete them.

On May 18, 1984, UMTA published its proposed Major Capital Investment Policy. This proposal provided a valid methodology for rating new start proposals according to quantitative criteria, the results of which could be used as a benchmark for basing funding decisions. However, our proposal was rejected.

We believe that the decision to build a new fixed rail system should be governed by local political and fiscal constraints and not by the availability of a Federal discretionary grant.

The Administration has concluded that the only way to prevent the squandering of this scarce resource is to no longer make it available on a discretionary basis.

Competition and Public/Private Partnerships

Section 3(e) of the Urban Mass Transportation Act of 1964 specifically state that "no financial assistance shall be provided under this Act.....unless the Secretary finds that such program, to the maximum extent feasible, provides for the participation of private mass transportation companies."

However, the monopolistic structure of public agencies has prevented the private sector from participating in important planning and service decisions in their region. Increasingly, public agencies are recognizing the need to make changes to their role as policymakers and transit operators so that they can have the tools to be flexible in a very uncertain budget environment.

To encourage the cost-effective use of resources and assure further flexible responses to changing transportation needs, our proposal calls for a public/private partnership -- a partnership where more extensive competition in the provision of services can reduce costs and improve the quality of transit.

In each urbanized area receiving Federal transit funds, a portion of service (operations and maintenance) must be reserved for competition each year. The amount would be 5 percent of the local transit operating budget the first year, increasing to 20 percent by the fourth. A local process would be required to select and compete service with equitable participation by public and private operators. Studies are showing that communities can achieve 10 to 50 percent savings when competitively contracting service. Assuming an average 20 percent savings under our competitive services proposal, we can expect that communities could achieve savings over a four year period of at least $700 million.

Current examples include, Dallas, Texas, which has contracted with Trailways to provide express commuter service - a case where new service has been provided because of the potential cost savings of competition. 10,000 passengers a day use this new service, up from 3,500, and Trailways has saved the city $9 million in the first year of the express commuter program. Also, commuting time for people using express buses has been reduced by as much as one-half hour.

A number of transit properties have entered into collective bargaining or Section 13(c) agreements that prohibit or limit contracting out of work. This is one way in which the Section 13(c) provision is having harmful negative effects now that it has outlived its original purpose. Section 13(c) requires that fair and equitable arrangements be in place to protect employees that might be adversely affected by UMTA financial assistance. This provision was intended to protect existing rights, privileges and benefits of employees, continue their collective bargaining and protect individual employees against a worsening of their positions during the era of public takeovers of private operators.

In addition to restricting private sector participation, the Section 13(c) provision inhibits innovation. It has been used as leverage to gain new rights (such as interest arbitration), it has delayed projects, and it has interfered with the local collective bargaining process by giving labor an opportunity to reopen existing contracts and hold Federal assistance hostage until a new agreement is reached. It is for these reasons that our legislative proposal does not provide for the application of Section 13(c) to the new grant program.

Private sector involvement in capital infrastructure development through direct private investment or public/private joint ventures in new rail systems, rail extensions, and station modernization, also offers opportunity for considerable savings, thereby greatly reducing reliance on Federal assistance.

New York City is working with local developers to build a rail line along New York's West Side. The area is currently poorly served by transit and has very limited parking. Most of the line would use a freight railroad right of way and would extend approximately 12.6 miles from the George Washington Bridge to South Street on the East River. The line would serve Donald Trump's Television City, the Jacob Javits Convention Center, Penn Station and connect with the George Washington Bridge and Trans--

Hudson Commuters. Development in the corridor includes 3 million sq ft. at the Columbia Presbyterian Hospital; 19 million sq. ft. at Donald Trump's Television City at Penn Yards; 2 million sq. ft. at the Hudson River Center; 6 million sq. ft. at Battery Park, which would include 4000 residential units; 1.5 million sq. ft. at South Ferry Plaza; and 5.5 million sq. ft. at East River Landing. Also, there are a number of vacant and underutilized sites which would be prime for development.

Private developers, in order to secure easy access to their properties, are expected to make major contributions to the financing of the line. The total value of this project would be well over one billion dollars.

Fiscal Year 1987 Budget Proposal

Let me now turn to the specific accounts in our budget proposal.

In FY 1987, the entire UMTA program would be funded from the Mass Transit Account of the Highway Trust Fund. The budget request is for $1.22 billion, this level matches the estimated annual one-cent gas tax receipts to the Mass Transit Account during the four year authorization period. Because the program would no longer receive funding from general taxpayer revenues, it would no longer contribute to the Federal deficit. Moreover, limiting transit funding to receipts to the Mass Transit Account, is consistent with the Administration's goal of funding Federal transportation assistance programs primarily with user fees.

Formula Funds

Under our legislative proposal, funds from the Mass Transit Account -- as well as certain funds from the Highway Account --

would be the sole source of funding for a combined transit and highway block grant program. Under the new program, after setting aside funding for UMTA's Administrative Expenses, the Research, Training, and Human Resources program, Planning, and the Elderly and Handicapped program, $1.1 billion would represent UMTA's contribution to the block grant program. Funding would be available for either transit or highway projects at State and local discretion. Rather than requiring detailed Federal review before releasing the funds as grants, UMTA and FHWA would receive assurances from the States that they were in compliance with minimal Federal requirements. Funds would be made available for capital assistance in all areas and for operating assistance in areas under 200,000 in population only. These are the areas most heavily dependent on current Federal operating assistance.

Elderly and Handicapped Program

Our fiscal year 1987 budget proposal would continue funding for the elderly and handicapped program. In fact, the level we have requested, $35 million, is higher than the fiscal year 1986 level.

Planning

Our fiscal year 1987 budget proposal includes $30.5 million for planning. These funds will be distributed to State and local officials on the basis of an administrative formula, as is currently done.

Interstate Transfer Grants-Transit

The Administration proposes to discontinue funding Interstate transit substitution projects from the general funds and to fund them with revenues from the Highway Trust Fund. We believe that this proposed funding arrangement is more in line with the original intent of the Interstate Transfer program.

Washington Metro

The Administration does not request any funding for construction of the Washington Metrorail system. It would be unfair to continue to fund the Washington system when discretionary funding for other new start systems is being terminated. After receiving nearly $5 billion in Federal funding, it is time for the Washington metropolitan area to dedicate a source of local funding for its needs. The metropolitan area could use its share of Transportation Block Grant resources to continue Metrorail construction if it desired.

Research and Training; Administration

For fiscal year 1987, we are requesting $19.5 million for Research, Training and Human Resource activities, and $26.8 million for UMTA's Administrative Expenses. Both of these amounts, as well as the funding for the Planning and Elderly and Handicapped programs, would be takedowns from the new $1.22 billion block grant program.

Conclusion

The approach which I have described -- limiting the Federal transit program to user fees -- competitive bidding for transit services -- more flexible programs with increased local decisionmaking -- and private capital investment in public transportation -- will move the nation closer to the deficit reduction goals required by the Gramm-Rudman-Hollings Amendment and produce a transportation system more responsive to the people who use it.

Mr. Chairman, that concludes my prepared statement. I would be pleased to answer any questions that you might have on our budget proposal.

FULL FUNDING CONTRACTS

Senator ANDREWS. Mr. Stanley, what is the status of your full-funding agreement negotiations with Miami, Seattle, and Los Angeles?

Mr. STANLEY. We have, Mr. Chairman, in each of the three cities had discussions, as recently as this morning. Deputy Secretary Burnley has spoken with Chairman Lehman in the House with regard to some concerns that the Deputy Secretary raised affecting our supplemental appropriation.

We have a draft memorandum of understanding in Miami which we will be discussing with officials of Dade County. I think there has been progress in the last couple of weeks with regard to that project. Based on the March 18 letter that we sent to Seattle reflecting our proposed full-funding contract, we have had several discussions with the officials in Seattle. I think they have accepted the broad outline of the offer that we made, other than some specific language changes.

On the third project, Los Angeles, we have had several discussions. We have received a draft full-funding contract from Los Angeles outlining some changes. We have some concerns in that project over the degree of the local financial commitment in the event that authorizations and appropriations are not made to the extent that they are asking for, but I would say overall on those three projects, certainly by the end of May or some point early in June, if negotiations can be fully resumed and the concerns of the Secretary's office with regard to the supplemental taken care of, I think that we can proceed toward agreement.

Senator ANDREWS. Upon resumption of negotiations, how long would you anticipate it will take to complete full-funding agreements with each of these cities?

Mr. STANLEY. With regard to Miami, the focus has been on the memorandum of understanding and a draft agreement on the full-funding contract. That should take just a matter of weeks.

With regard to Los Angeles, one thing that prevents Los Angeles from signing that contract is an environmental question, a serious one, regarding some methane gas explosions that occurred. We are currently reviewing that as well as their willingness to make a financial commitment which, based on our review, they are capable of making.

In Seattle, it is just a matter of discussing some language changes. Overall, I would say if we resume negotiations and the concerns in the supplemental are taken care of, it could be done in a matter of 2 to 3 weeks.

REAUTHORIZATION LEGISLATION

Senator ANDREWS. The administration's proposed Surface Transportation Reauthorization Act would eliminate the section 9 formula grant program and the section 3 discretionary grant program; and instead, provide funding for mass transportation through a combined highway transit block grant program, with $1.2 billion annually from the mass transit account.

Now, while acknowledging the challenge that confronts us in attempting to balance the Federal budget, how do you justify a 60-percent decrease in mass transit funding when total transportation funding under the President's budget decreases by approximately 20 percent?

Mr. STANLEY. When the administration put together its overall transportation budget, there were two principles governing it. One was an effort to meet the goals outlined in Gramm-Rudman-Hollings, and the second was an effort to sort out what were principally Federal responsibilities from what we deemed to be local responsibilities.

Attempting to sort out those kinds of priorities, there is unquestionably greater Federal responsibility in areas such as aviation and the Interstate Highway System. These take precedent over the more local responsibilities of mass transit. Hence, the disproportionate cut that occurred in the proposed budget in the mass transit account.

Senator ANDREWS. Do you consider mass transportation investments to be of national benefit?

Mr. STANLEY. There are some national benefits to be assumed in mass transit investments. But, regardless of the level of funding in the current fiscal year or last year, there is serious reason to question the reality of some of the mass transit benefits that were touted about the Federal program when it was begun 20 years ago.

It has not made the appreciable impact on air quality, use of the automobile, and economic development that was originally posited. I think those benefits are principally local and not national.

MASS TRANSIT TRUST FUND

Senator ANDREWS. Mr. Stanley, the Congress in its infinite wisdom set aside a specific tax for mass transit trust fund and that trust fund is projected to bring in about $1.2 billion annually in receipts from the 1-cent fuel excise tax and another $300 million in interest on its cash balance.

Why doesn't the administration request full use of the yearly revenue of this trust fund?

Mr. STANLEY. The administration's decision to cap the funds from the trust fund at a $1.22 billion amount reflected a budget decision which considered the deficit impact of allowing the outlays to increase to accommodate the interest account which we are projecting at about $200 to $300 million a year in fiscal years 1985 and 1986. The decision was really based on the premise that it was an intragovernmental transfer, and the deficit impact of allowing that interest to be accounted for in that overall trust fund account was the basis for the decision to not include interest this year in terms of the obligation ceiling.

Senator ANDREWS. But because of what you have proposed, there have been a number of discussions. Bills have been introduced to move other transportation trust funds off budget.

Don't you believe that by allowing a balance to build up in this fund, you are adding fuel to that argument?

Mr. STANLEY. It is unquestionable that the recipients of the trust funds, both on the highway and transit side, are interested in getting the interest income as soon as possible. Our point was that given the fact that interest was indeed a Federal outlay and did increase the deficit to the degree it was credited to the trust fund, that is the principal argument for those interested in taking trust funds off budget.

The way the current unified budget is prepared, it is not deficit-neutral. It was part of our overall effort in the budget preparation to meet the goals of Gramm-Rudman-Hollings.

FAIR ALLOCATION OF TRUST FUND

Senator ANDREWS. Well, let us talk about equity in taxation, equity for the small more rural States particularly.

Your budget justification states that since the penny gas tax for transit is collected nationally, it is also appropriate that it be allocated nationally so that to the greatest degree possible, all payers of this tax may receive benefits from it.

No way am I going to argue with you on this. But under the administration proposal which you are fronting for this morning, North Dakota's total transit formula funding is reduced by one-half, to approximately $917,000; yet North Dakota taxpayers contribute approximately $4½ million per year to the mass transit account.

Based on your philosophy, Mr. Stanley, of allocating the benefits of this program nationally, would you support an 85-percent minimum allocation similar to the highway program?

Mr. STANLEY. I think we would consider that kind of allocation. One of the reasons that we are tending toward more and more of a formula-based program is particularly——

Senator ANDREWS. I am not asking you to consider it. We have got to consider on this table. What I am asking is for your recommendation of whether or not this is equity.

Mr. STANLEY. Some kind of minimum allocation, which we attempted to achieve by proposing use of the formula that we currently have to distribute from the 1-cent trust fund revenues, is indeed equitable.

Senator ANDREWS. And you would support that kind of an allocation?

Mr. STANLEY. Depending on what that minimum allocation was, we would support some effort to try and ensure that the benefits do not accrue to simply a few States.

Senator ANDREWS. So you would be nominally in favor of an 85-percent disbursement based on the amount paid in so that the program is equitable across the board?

Mr. STANLEY. I would not commit to an 85-percent disbursement or any particular allocation formula currently. Our effort, despite the budget cut, in distributing the funds from the trust fund by a formula that went to all of the 50 States was a step toward trying to ensure some kind of equity in a revenue that is collected nationwide.

Senator ANDREWS. Let me point out where the glaring inequity lies. It is my understanding that nonurbanized areas, the rural parts of this country which have unique transportation problems all their own—there is no way you can get on subsidized mass transit if you live in a rural community to go to church, which may be 20 miles down the road, or to go to the doctor who may be 30 miles down the road in the next county—you do not have this kind of subsidized mass transit. You have other needs.

Yet, the rural areas represent 40 percent of the Nation's population. Currently they receive less than 3 percent of UMTA's assistance.

In your judgment, is this fair?

Mr. STANLEY. Our formula-based program is geared toward the number of transit riders rather than the urbanized areas.

We have tried to be fair both in terms of going to a formula program and, second, in terms of trying to encourage the States to apply for and redistribute funds made available to them by formula to those areas where those needs exist. We are trying to provide flexibility to the States—and we have noted in the last 2 fiscal years, Governors are exercising more and more of that flexibility to target the formula-based funds to those smaller rural areas.

Senator ANDREWS. Well, given that philosophy, would you support a recommendation by this committee to increase the 2.93 percent of formula funding currently earmarked for nonurbanized areas?

Mr. STANLEY. I think that we would support an increase in that. I think that we would also continue our efforts based on the current formula to encourage Governors to reallocate formula funds that are available to them that are not being used in areas from 50 to 200,000.

Senator ANDREWS. If it were up to you, what level of funding for rural areas would you recommend?

Mr. STANLEY. Depending on the budget, I think the level of funding we would recommend arriving at in rural areas—meaning areas under 50,000—could easily increase by a factor of 50 to 100 percent.

Senator ANDREWS. You are moving in the right direction. In other words, you are thinking that perhaps transit funding, since it goes to help people, ought to be roughly proportionate to the percentage of people in a given area.

Obviously, the big cities are going to get more than the rural areas, but I am getting darned sick and tired of having 40 percent of the people in this country who live in the rural areas only get 3 percent of transit funding. That is not fairness.

Do you think that by doubling the amount, you are moving in the right direction, or would you think that we ought to come closer——

Mr. STANLEY. We could move in that direction. We have noted that North Dakota, Florida, and a number of States are reprogramming money available for medium-sized areas and larger areas to those rural areas, as we have encouraged them to do in the last 2 years and are continuing to do so.

ELDERLY AND HANDICAPPED TRANSPORTATION

Senator ANDREWS. I have been a strong supporter of the section 16(b)(2) program which provides needed transportation assistance to the elderly and the handicapped. I was pleased to see the President recommended increased funding for this important program in his proposed fiscal year 1987 budget.

In rural areas of my State, these funds have been extremely important for social service agencies, senior centers, other local groups which frequently are the only providers of public transportation in their communities.

I would like your opinion, therefore, as to whether or not you would support efforts to expand funding under section 16(b)(2) to include both capital and operating assistance.

Mr. STANLEY. As you recognize, Mr. Chairman, the proposal was deliberately, despite the reduction in total transit funding, designed not to cut the 16(b)(2) program. We have encouraged also other agencies, particularly Health and Human Services [HHS], to try and coordinate the social service programs that use our 16(b)(2) vehicles and the operating assistance available for those programs in as efficient a fashion as possible.

We have set up a cooperative agreement with HHS which provides in many cases the operating funds while we provide the capital assistance to ensure (*a*) that it is efficient, and (*b*) that those programs are centrally coordinated to the greatest extent possible.

SECTION 18 LOCAL MATCH

Senator ANDREWS. Last year I, along with Senator Leahy, who is a Senator from another small State, pressed for legislation to make it clear that all social service contract income could be used as local match for the section 18 program. I was pleased at the promptness with which UMTA issued guidance to the States on that legislation.

I was also pleased that the guidance was as direct and straightforward as it was.

Now, has there been any feedback from the field on the guidance that you put out?

Mr. STANLEY. We have had very positive feedback from the field and we are encouraging, both through technical assistance and our discretionary funding, efforts to set up programs that coordinate those social service fundings. We are seeing a much greater integration of the services and application of the funds. The feedback so far has been very positive.

OPERATING ASSISTANCE CUT

Senator ANDREWS. The Senate Budget Committee's resolution assumes a 20-percent cut in operating assistance. If this were enacted, would you recommend that the cut be targeted to cities with a population greater than 1 million, which is what essentially your 1986 supplemental request did?

Mr. STANLEY. In terms of the $170 million cut in operating assistance contained in the budget resolution, unquestionably, given the lesser degree of reliance on operating assistance in the larger urbanized areas, I can support that targeting because the ability of those areas to make up for that slight cut in their operating budget is greater than that of the smaller areas. I would support concentrating the cut in urbanized areas over 1 million.

Senator ANDREWS. I appreciate that. I have a number of other questions. Senator Lautenberg has been here for some time, and since New Jersey buys a great number of buses produced in North Dakota and wants to buy more, I will yield to Senator Lautenberg and put the rest of my questions in the record.

Senator LAUTENBERG. I appreciate that, Mr. Chairman.

Senator ANDREWS. Just keep buying those buses.

Senator LAUTENBERG. Those buses are needed in the densely populated areas, you know, the heavy populations, not simply the rural populations.

Senator ANDREWS. We just want you to know that good things come from rural States. You have enjoyed our potatoes. Ralph, we might point out that Yogi Berra made a remark out in North Dakota, on what we grow out there? He said, you can't raise potatoes.

We said we sure can, so we took a semi-truckload and dropped them in the front yard of Senator Lautenberg's old neighbor, Yogi Berra, and he was there getting all the TV publicity, so he knows about North Dakota products from potatoes to buses. And the acceptance in New Jersey is darn good

Senator LAUTENBERG. It has been excellent, Mr. Chairman, and if we can make buses out of potatoes, we will really have it.

Senator ANDREWS. Well, we cannot make buses out of potatoes, but you are glad to buy those that we make out of good solid steel.

Senator LAUTENBERG. We like to eat them and then we like to ride in reasonable comfort and reasonable efficiency on those buses. We need, therefore, lots of help from the mass transit program as designed by the Congress, Mr. Chairman.

Ralph, it is good to see you here. Mr. Stanley is a former New Jerseyite and at times I think he has forgotten his roots. We would like to remind you about what it is like trying to get around the crowded State.

PREPARED STATEMENT

Mr. Chairman, I have a statement I would like to put in the record if that is all right.

Senator ANDREWS. Without objection, we will put it in the record at this point.

Senator LAUTENBERG. OK.

[The statement follows:]

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Mr. Chairman, it is always a pleasure to join you when the subcommittee is discussing mass transit. Mass transit is critical to the economy of my State.

It's good to see Mr. Stanley. Mr. Stanley is a capable spokesman for the administration. However, I must disagree with the mass budget proposal DOT has sent us. Fortunately the Senate, in the budget resolution we just approved, rejected the drastic cuts recommended by the administration. The resolution did not provide the levels I'd like to see. But, compared to the administration's budget, the reductions in mass transit in our approved budget, problematic as they are, are modest.

The administration's budget is based on the false premise that transit needs are local needs and therefore not the business of the Federal Government. The Congress rejects that notion. Mass transit is essential to densely populated States and cities. It is as essential as highways are to our expansive Western States or essential air service is to small communiites which would be cut off from such service without Federal help. Mass transit is part of a balanced national transportation network.

I've come to expect draconian budget cut proposals in mass transit by the administration. I take comfort in the consistent support mass transit has received from this subcommittee and look forward to working with the chairman and ranking minority member to provide for mass transit needs in our fiscal year 1987 bill.

RAIL MODERNIZATION STUDY

Senator LAUTENBERG. Mr. Stanley, when the subcommittee met to discuss your budget last year, I asked you about a rail modernization needs assessment done by a firm in Harrisonburg, PA. The study is known as the Gannett Fleming study after the name of the firm.

The study was requested a long time ago. It was supposed to be delivered December 31, 1979. Last year I asked you about the study and you said UMTA would have it by mid-April of this year and you would turn it over to the subcommittee.

Where is the needs assessment?

Mr. STANLEY. There are two parts to that, Mr. Chairman. I would like to make an opening remark about it and then ask the Deputy Administrator, Al DelliBovi, to talk about it a little bit.

The Gannett Fleming study will be done in 60 days. Its basic showing is on a needs basis, looking at the whole panoply of the rail mod cities. If everything were done and everything were rehabilitated as currently stated, the cost would be, I think, on the order of $15 to $17 billion. Once you have determined the needs, then you determine which is the most cost-effective investment.

One part of the study, done by a firm from London, looks at the rehabilitation of given routes, how many riders would benefit? Given the demographic changes of some of these systems that are 50 to 70 years old, what is the most cost-effective investment?

It is very interesting, with that addendum to the study which I think is critical, that with about 50 percent of the $17 billion investment, you would capture and cover about 80 percent of the riders that would be affected.

In fact, just by way of example in the New York area, if you look at some of the discussions that are going on with the Regional Planning Agency, they are debating, given the demographic changes, whether or not every subway route on the existing New York City system should be upgraded or should be replaced with bus service.

Al, you may want to talk about some of the other results.

Mr. DELLIBOVI. Yes, thank you, Senator. Thank you, Ralph.

COST-BENEFIT ASPECT OF RAIL MODERNIZATION STUDY

The addition to the study that we have added is basically a measure of the cost/benefits, and as the Administrator indicated, by spending approximately one-half the total $17 billion cost, you could benefit 80 percent of the riders.

Let me give you some examples as to why that happens. Let us take, for instance, on a commuter rail system, we picked two segments of similar commuter rail, not in New Jersey, but similar to New Jersey. Each of these projects had the same scope of work, and each would cost $85 million to complete. One would benefit 7 million passengers; the other would benefit 14 million passengers.

We did the same thing on light rail, comparing two similar light rail projects in different cities. One would be on a segment that would cost $35 million; the other on a segment that would cost $38 million, again buying the same kinds of improvements. In the $38 million case we would benefit 2 million people. In the $35 million case——

RAIL MODERNIZATION STUDY AVAILABILITY

Senator LAUTENBERG. We are not going to be able to debate this this way.

Is the report available to be turned over the subcommittee?

Mr. DELLIBOVI. The report will be available in 60 days and it will include——

Senator LAUTENBERG. What happened between the last time, Mr. Stanley, that we discussed this? What accounts for the delay? I understand that you want to editorialize and edit and review. That is fine.

But why can't the report in its rough form be delivered as promised? I do not understand.

Mr. DELLIBOVI. The report is not complete and will not be complete until that time. There are incredibly complicated aspects to the report. We want to make the report meaningful and measure the benefits of the information contained therein.

Senator LAUTENBERG. That is with your review of the data, right. And the report itself as it came from the consultant is, I assume, done and available, is it not?

Mr. DELLIBOVI. The first phase of the raw report is done and available. The second phase of the total report will be completed in 60 days.

Senator LAUTENBERG. Was the entire report due at this point in mid-April? I mean you made a commitment to me. I assume that you factored that into all the things you had to be concerned about.

Mr. STANLEY. At the time we had not factored in, in part, the analysis of the cost-benefit ratio. Part of the reason for doing that analysis, Senator, with the Chicago and New York area, is that a lot of those cities are going through that exact exercise themselves.

And what we wanted to make sure is that the report reflected more than just if everything as is were done. We wanted it to reflect the priorities of the transit authorities as to what would be invested in first.

Within 60 days the complete report will be done. I will be glad to share the draft of what we got from the consultant with the subcommittee.

Senator LAUTENBERG. Did the consultant finish their work in 1982?

Mr. STANLEY. No.

Mr. DELLIBOVI. The consultant is continuing to——

Senator LAUTENBERG. What did they deliver to you? My papers indicate that they delivered to you in 1982 their report. Is that true or not true?

Mr. DELLIBOVI. I do not believe that is true. No.

Mr. STANLEY. That is before I was at the agency, Senator, and if they did deliver their full report in 1982, we have been paying them over the last 3 years for something else.

Mr. DELLIBOVI. We have been meeting with them regularly to work on developing the report.

Senator LAUTENBERG. I will tell you what. Once again we are clearly on the record here as having it now available. What I want to know is not the policy. I appreciate your recommendation. But I want to see the assessment report.

Mr. STANLEY. That is well understood. The reports and materials that we have got we would be glad to share with you.

PRIVATE SECTOR ROLE

Senator LAUTENBERG. OK.

I want to ask you something else. I am not opposed to your efforts to enhance the role of the private sector in mass transit. I have been critical, as you know, of holding up the grants in the interest of imposing only the Federal review on local transit authority.

Last year's continuing resolution contained language noting that holding up the grants was not the proper way to generate private sector participation. Yet we note that in 38 percent of the cases where section 3 grants have been delayed, lack of privatization justification has been cited as the cause.

Your actions as regards the approval of section 3 grants, do you think they are consistent with the language contained in the continuing resolution?

Mr. STANLEY. Senator, the language in the continuing resolution that indicated we should not premise any grants on any given percentage of private sector participation, nor hold up any grants, is something that we have made every possible effort to comply with.

The basis of our private sector participation is statutory, sections 3(e), 8(e), and 9(f) in three parts of our authorizing act. We have refrained from issuing a regulation. What we have published is guidance. None of the grants have been withheld based on lack of private sector participation. We have asked for some policy statements from grantees which in many cases are one or two pages.

What we said in January is, since most of the program is formula, that what we will commit to is a quarterly grant release process. If you get the grant in by the 15th day of any given quarter in the fiscal year—and this was started a little late because of Gramm-Rudman and the sequestration calculation—that by the end of that quarter the grant is going to be released.

We are now proceeding into the second quarter of that process. We received in the first quarter I think about 443 grants, 56 percent of which—formula grants, mind you—lacked one or another of the statutory requirements which we need to process.

This next quarter, looking ahead, based on what we just received yesterday, the formula grants that we will have received, about 75 percent of those will be able to be out by the end of the quarter. So by the middle of this year, despite the late start, we will have obligated 68 percent of the formula program. None of them are being withheld because of a lack of participation in the private sector. In section 3, as an emphasis area, we are looking to the degree of joint development and private sector initiatives that a particular grantee develops.

Certain of the section 3 items, simple track replacement and a lot of the rehabilitation work, cannot involve the private sector. My point is, even this year on section 3, we have asked for all the section 3 requests by May 15. We anticipate getting them.

The reason we did that is to make sure those grants would be processed as soon as possible and that we would get them out as quickly as possible.

Last year on section 3, in New York and I believe a couple of the other large properties, we had section 3 grant requests being changed as late as late September in the fiscal year. But in terms of grant processing, none of them are being withheld because of any lack of compliance with the private sector. And I would say this year for the first time in the history of the agency, we will have processed the grants on a quicker basis than any other fiscal year.

Senator LAUTENBERG. I am going to submit some questions to you, Mr. Stanley, that we would like your responses to and we will again note that 60-day timeframe.

Mr. STANLEY. If I could just make one comment about New Jersey Transit. New Jersey Transit, in my view—and I have met with them several times about this private sector—has been more responsive than any other property in terms of their use of joint development. Based on their submission this year, they have done an excellent job in a good faith voluntary effort to comply.

Senator LAUTENBERG. Thank you.

Senator ANDREWS. Senator Chiles.

Senator CHILES. Thank you, Mr. Chairman.

STATUS OF NEW START FUNDS

Mr. Stanley, the President's budget set up a $521 million rescission for new starts earmarked for fiscal years 1984, 1985, and 1986. We know the Comptroller General ruled that $223.6 million of this total was an impermissible impoundment, as it has been previously disapproved as a deferral.

On April 15, the balance of these funds were released, since Congress did not approve the requested rescission in the allocated 45 days.

What is the status of these funds and what are your plans for the use and release? I understand that $42.6 million of the fiscal year 1984 funds, of that amount $22.5 is for Miami, $11.8 for Los Angeles, and $8.3 for San Diego—those funds would lapse at the end of fiscal year 1987, so I would like to know what steps you would take to ensure the funds do not lapse and are spent for the cities as earmarked by the Congress.

Mr. STANLEY. There is no question that all of the funds indeed will be obligated, where available for obligation, as of April 16. We are attempting with all deliberate speed, as long as there is compliance with the statutory requirements of our Authorizing and Appropriations Act to obligate the funds and honor the earmarks that are reflected in the appropriations report.

I can go through the status of each of the cities. I mentioned to Chairman Andrews earlier with regard to the Miami——

MIAMI MEMORANDUM OF UNDERSTANDING

Senator CHILES. I understand you mentioned there was a memorandum of understanding that you had sent down to Dade, Miami. What is the basis of that memorandum of understanding?

Mr. STANLEY. The memorandum of understanding reflects the funding requests for the Metro Mover in Miami. As of this morning, the Deputy Secretary had conversations with Chairman Lehman in the House with regard to the draft of that memorandum of understanding, and we will be discussing that today and in the next few days with the officials in Dade County.

Senator CHILES. What assurances are provided in that memorandum of understanding that these funds can be used and will not lapse?

Mr. STANLEY. The mutual assurances provided by both parties indicate that basically if the environmental impact statement is completed and a record of decision is made by UMTA regarding the Metro Mover, that those funds——

Senator CHILES. Wait a minute. First, if the impact statement is done and what else—what was the next thing?

Mr. STANLEY. The second issue with regard to that is based on Dade County's own interest in coming up with a dedicated local funding source.

Both of those will be in place, and I think the memorandum of understanding reflects that those funds available for Metro Mover will be held pending those two acts being completed.

Senator CHILES. It seems to me that the first issue that you raised during the conversations I had was that you could not do anything because they had not complied with the law with respect to the EIS statement, and so that had to be done.

I am now hearing that you have added another provision.

Mr. STANLEY. No; I did not add that provision, Senator. That provision in the contract with regard to local funding is being added at the request of the county. We did not mandate that.

Senator CHILES. It is being added at the request of the county?

Mr. STANLEY. In every discussion I have had with Dade County, they have said that they will not proceed with the construction of the Metro Mover until they get a local financing source. The whole issue is whether we can obligate the funds or not. And we are making an effort to preserve the funds until such time as we are legally capable of obligating them.

One of the standards and one of the requirements for obligating them is that there be a local match, which currently is not in place in Dade County. Dade County in every discussion we have had from January 6 onward, has indicated that they would not proceed with the project absent a dedicated local funding source. That was not mandated by us. But that has been in every discussion we have had.

There has been discussion in Dade County about putting it on the ballot this fall or sometime in fiscal year 1987. But that decision is purely a local one and that has been in the contract, has been in the memorandum of understanding and in every document that we have had. I emphasize, it is not a Federal requirement but is a concern that Dade County officials have expressed to us.

Senator CHILES. I understand on January 21, 1986, in the Federal Register, UMTA published a notice to prepare an environmental impact statement for leg extensions to the Miami Metro Mover. When will the EIS be completed?

Mr. STANLEY. An ambitious schedule would indicate it would be completed in the middle or late fall. Normally an EIS of that size and complexity takes on the average about 12 months.

The speed with which it is done is a function of Dade County. Once an environmental impact statement is completed and public hearings have been held, one of the things that Dade County has got to do on both legs is a cost estimate which we would require as part of it.

Once that is done, we make a record of decision on the environmental impact statement, and that process has taken anywhere from 9 to 12 months.

SENATE BUDGET RESOLUTION

Senator CHILES. As you know, last week we passed the Senate budget resolution which included for transit the assumption of the 1986 levels with a 20-percent reduction in operating assistance for fiscal year 1987.

Does the Department support the Senate-passed budget resolution for the transit programs?

Mr. STANLEY. In terms of the Senate budget resolution, the administration has well-publicized concerns about the budget resolution as a whole. The Department, to my knowledge, has not taken a position on the budget resolution as currently enacted in the Senate.

We are encouraged by the reduction in funding. It is less of a reduction than we had hoped for. But to my knowledge, the Department has not taken a position on the budget resolution.

Senator CHILES. Do you have a position on it?

Mr. STANLEY. On the overall budget resolution?

Senator CHILES. No; on what we did on transit.

Mr. STANLEY. I think with regard to the cut in transit, a greater cut could be afforded. Our position has been that we are encouraged by the outlay savings that you would accomplish over the next 3 years in the budget resolution, but I think there is room for more.

BLOCK GRANT LEGISLATIVE PROPOSAL

Senator CHILES. The President's budget proposed a new block grant program to include $1.2 billion for the gas transit money with $2.2 billion for highway funding to pay for either highway or transit projects.

The draft highway bill now being circulated in the Environmental and Public Works Committee does not include the block grant proposal. Are you now prepared to throw in the towel and concede that this proposal is dead?

Mr. STANLEY. Not quite yet. I think the philosophy behind the block grant proposal is a good one and I think——

Senator CHILES. We are not talking about the philosophy now. We are talking about whether there is any life in it. Your whole budget is sort of put together on the basis that we are going to have this proposal.

If we are not going to have it—and it looks pretty clear we are not—I want to know what that does to your budget now.

Mr. STANLEY. I think the sentiment of the——

Senator CHILES. To put it another way, how long will you persist in this charade of a budget that you have now presented to us on the basis of this being live meat when we know it is now dead meat?

Mr. STANLEY. We would continue to work with the Congress through the process. The budget and the proposal I think make sense. I understand the sentiment in the Environment and Public Works Committee with regard to the reception the budget has received, but until——

UMTA STAFFING LEVEL

Senator CHILES. Well, how many additional positions do we need to include now in the fiscal year 1987 budget because this proposal is not going to fly?

Mr. STANLEY. Additional positions in the agency?

Senator CHILES. In the 1987 budget, yes. You were going to save all kinds of positions because we are going to merge these things.

Mr. STANLEY. I do not think that because of the Senate budget resolution any additional positions need be added to the agency at all.

In terms of agency personnel, regardless of the amount of money that we process, whether it is a block grant with $1 million or a block grant with $10,000, I do not think that we have to increase personnel, because the budget resolution and what I understand to be in the Senate Environment and Public Works Committee reflect a program slightly less than the one we have now.

Senator CHILES. According to your provision here, your scenario was that the block grant program would substantially reduce the staff workload primarily in the area of the preaward activities and in view of the fact that it is dead, my understanding was your budget officer said you were going to need 40 new positions.

Mr. DELLIBOVI. Senator, if the program structure was essentially the same in fiscal year 1987 as it is now, we could save 40 positions from fiscal year 1986 and administer the program with 455 full-time equivalents. That's the budget as termed for personnel. And we would stand by that request and still be able to handle the program.

As the Administrator indicated, the bulk of our proposed program is formula grants, and the same amount of work is required for processing a big one or a little one generally. We believe that we will be able to handle that work even if the Congress were to authorize a program larger than that which we requested.

Senator ANDREWS. Senator Cochran.

REGIONAL OFFICE REORGANIZATION, ATLANTA AND PHILADELPHIA

Senator COCHRAN. Thank you very much, Mr. Chairman.

I am here to impress upon the agency the seriousness of the concern that exists in my State about what is happening at the Atlanta Regional Office.

We are told that there is an acting administrator for that office. There is no plan to appoint a regional administrator for Atlanta, but rather a shift of those responsibilities to the regional administrator in Philadelphia.

I want to be sure that my constitutents are not treated like second-class citizens; that when it comes time to file applications for grants they are not going to be shunted off to Philadelphia and have to wait in line behind the entire region there before they get any attention.

What is happening?

Mr. DELLIBOVI. Your constituents, Senator, will be treated as first-class citizens. They will continue to be serviced from the Atlanta office. There is one person being named as the acting regional administrator in Atlanta. He is also the Philadelphia regional administrator. There will be deputy regional administrators in both offices. There will be advantages to the grantees served by both offices because of leveraging the staff resources in both places. Mississippi will not be affected in any way. They will continue to do business with the folks in Atlanta, and I think they will find that the service will be vastly improved.

Senator COCHRAN. I am glad to hear that. That is good news indeed, because the concerns have been very serious. They have been expressed to me in a very constant fashion over the past few weeks. We have been in touch with your office and we have been gratified with the response and the exchange of information.

As a matter of fact, it has just been brought to my attention that just last night we were delivered a two- or three-page description of some of the plans for the regions 3 and 4 and some of the questions that I had are answered in this document.

I thank you very much for submitting this explanation.

Mr. Chairman, could we have the document entitled "Urban Mass Transportation Administration Regions 3 and 4 Issues" included in the record?

Senator ANDREWS. Without objection, it will appear at this point in the record immediately after the Senator's remarks.

Senator COCHRAN. I appreciate very much the chairman's including this document in the record.

[The information follows:]

URBAN MASS TRANSPORTATION ADMINISTRATION REGIONS III AND IV ISSUES

BACKGROUND

The Urban Mass Transportation Administration (UMTA) is in the process of redirecting its field organization to conform to the changing policy and budgetary environment within which the Federal transit assistance program operates. To that end, the Agency has closely evaluated the overall program delivery effectiveness of the regional offices to ensure that UMTA's constituents in all ten regions receive quality and timely service. Within this larger review context, recent events have allowed UMTA to focus more specifically on two regions--Philadelphia (Region III) and Atlanta (Region IV)--and to make some minor organizational changes to ensure the program's continuing effectiveness.

These changes are consistent with the Administration's and the Department's productivity and streamlining goals. For example, at the request of the Office of Management and Budget (OMB), the Office of the Secretary of Transportation (OST) reviewed UMTA's regional structure and issued its findings in November 1985. The report proposed a number of regional organizational options for UMTA and stated that the "review of UMTA's field structure suggests that staffing and cost efficiencies can be achieved in the UMTA Regional Offices, even if fundamental legislative changes being proposed are not enacted."

In addition, it should be recognized that UMTA continually reviews its organization and staffing needs in order to meet the future constraints of the Gramm-Rudman-Hollings' Act and potential legislative changes. To meet these important challenges, UMTA will continue to employ innovative management practices while seeking opportunities to streamline its organization to increase program economies.

DESCRIPTION

UMTA's Region III (Philadelphia) and IV (Atlanta) organizational changes include the assignment of Mr. Peter N. Stowell, who currently is the Philadelphia Regional Administrator, as the Acting Regional Administrator of the Atlanta Office. Ms. Charlotte M. Adams, who has been temporarily detailed to Atlanta for the last nine months as the Acting Regional Administrator, had agreed to that temporary detail while awaiting permanent assignment in Washington, D.C.

Mr. Stowell will oversee program delivery in both regions and will thus be able to deploy the resources of the larger combined staff to target service more effectively to each of the 12 States in both Regions III and IV. The Philadelphia and Atlanta locations will continue to operate as Regional Offices. There is no intention in this action to reduce the Atlanta Office.

In his new capacity, Mr. Stowell will be in a position to balance more effectively existing grant workload and make available to all grantees within the two regions a larger cadre of seasoned UMTA professionals. In addition, because of the larger pool of available staff, Mr. Stowell will be able to make adjustments in regional workload, including the reassignment of individual State's grant caseloads between the two offices after he evaluates the impact of such changes on staffing, grant delivery, and constituent needs. Another important consideration is that with these changes, the Atlanta Regional Office will be able to meet the 45-day Sections 5 and 9 grant approval turnaround policy that was announced this past January by Administrator Stanley. Any adjustments in workload will be based on the assessment that UMTA constituents will receive more timely and quality assistance from the change.

Deputy Regional Administrators will continue to be assigned to each city.

STAFFING ANALYSIS

The loss of eight staff members in the Atlanta Regional Office during calendar year 1985 made it impossible for the Region to meet the standards of grant delivery services which have been established for all Regional Offices. At the same time, the Region III office, which was not experiencing staff turnover (only one loss during calendar year 1985), was in a position to take on a larger workload due principally to improvements in their grant processing system, including enhancements to the automated grants management information system. To correct this imbalance and provide the most cost-effective delivery system possible, UMTA considered several options.

The Agency considered reassigning staff from Philadelphia to Atlanta, but this was not a realistic option because of serious cost considerations. Recent changes in the laws governing permanent changes of station for Federal employees have increased the cost of such staff moves to roughly $75,000 per employee, and to relocate the necessary staff would cost approximately $225,000 to $300,000. At a time when the Federal Government is striving to implement the Gramm-Rudman-Hollings' Deficit Reduction Act, this option did not appear to be a prudent course of action.

Another option which UMTA considered was to reduce staff in Philadelphia and hire new staff in Atlanta. While this would have been somewhat less expensive than relocating staff, the direct cost of a reduction-in-force (RIF) in Region III (approximately $100,000), coupled with the disruption and loss of productivity which a RIF would create in an office which has been historically a model of efficiency, led us to the conclusion that this also would not be a cost-effective alternative. This view was reinforced by considerations of the loss of efficiency and productivity that would occur in Atlanta while we were recruiting and training new staff for that office. Furthermore, there was no assurance that new recruits in Atlanta could be trained quickly enough to replace immediately the skills of the seasoned employees RIFed in Philadelphia.

After assessing the various staffing options, UMTA concluded that the most cost-effective way to provide a high level of service to our grantees in both Regions would be to leverage the strengths of both organizational units and optimize the effectiveness of employees working in both Philadelphia and Atlanta. It should be noted that only a small number of UMTA grantees are actually situated in either Atlanta or Philadelphia, and that most transactions are made by mail, telephone, or other electronic means. Therefore, workload reassignment from one processing office to another will have nearly negligible, negative impact. However, speedier processing will have the substantial, positive impact of faster delivery of grant funds. This option has several advantages: 1) it involves little or no direct cost; 2) it facilitates the installation in Region IV of the highly efficient, service-oriented grant delivery system which is already in use in Region III; 3) it gives the Regional Administrator flexibility to modify workload and staff assignments to meet changing needs, thereby improving the level of service without additional staff; 4) it permits a staff reduction of 15 percent (7 positions) from the total authorized ceiling of 46 positions for the two regions to 39 positions, for a direct cost savings of $307,600 annually in salaries and benefits. This staff reduction of seven positions represents recent vacancies that will not need to be refilled. In addition, no employees in either location will be displaced, reassigned, or separated.

TURNAROUND TIME FOR GRANT APPLICATIONS

Senator COCHRAN. Again let me express my appreciation for the response to my office for some of the inquiries that we have been submitting to you.

Is this going to slow down in any way the turnaround time for grant applications?

Mr. STANLEY. Senator, I would submit to you that if we are in this forum at this time next year, you will find the turnaround time for the applications from the States has been much quicker.

I indicated a little bit earlier we have now gone to an overall program where, if the formula grant applications are submitted by a given point in time in any of the fiscal quarters, they are going to be out by the end of that quarter, which is the first time the agency has done it. With my experience in the agency, I would bet very confidently that the grant processing all over the country, but especially in that area, is going to pick up considerably.

Senator COCHRAN. I had heard compliments on the way in which the Atlanta office had been handling applications, and we had heard complaints about the efficiencies or lack of efficiencies in the Philadelphia office. We were worried that this new arrangement was going to bring the inefficiencies of the Philadelphia office to the Atlanta office because of the leadership change and the shifting of responsibility to the Philadelphia office for the running of the Atlanta office. That is what we were concerned about.

Mr. STANLEY. I appreciate that. And as I said, I think that the grant processing that we adopted for each of the regional offices is going to result in efficiencies nationwide.

Senator COCHRAN. Well, I appreciate those assurances. Thank you very much, Mr. Chairman.

Senator ANDREWS. Thank you, Senator.

Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you very much. I am pleased to be here this morning and I have a brief opening statement which I would like to ask be included in the record along with a chart.

Senator ANDREWS. Without objection, we will include that in the record at the beginning of the hearing.

Senator KASTEN. I appreciate that very much, Mr. Chairman.

CHARTER BUS OPERATIONS

Senator KASTEN. The chart shows that Milwaukee County Transit System is doing well in terms of number of passengers per population by ranking first, ranking second in expenses per passenger, and I just think that that chart is an important one to include in the record, and I appreciate that.

Unfortunately, I have to go and chair the Senate. I would like to just ask one brief question and then to include some other questions in the record.

You have proposed, Ralph, a rule change in charter bus operations which would prohibit a transit system from operating charter buses while receiving Federal funds. I understand there are two exceptions to that rule, but I wanted to know if UMTA considered the regulation's impact on local transit systems' operating budget when you developed this rule.

I would think that UMTA would want to encourage this kind of use since the profit that they are able to make in some of these brief charter operations can help in overall deficit reduction.

I know that in Milwaukee, for example, we have done a pretty decent job in terms of allowing the local buses to be chartered on a part-time basis to take people to and from a convention or from a private facility to a baseball game or a football game or something else. There is a whole kind of a network that has been worked out that way using the transit company's buses.

Where are we on this rule and has there been any consideration to the regulation's impact on local transit systems' operating budget?

Mr. STANLEY. We have considered that, Senator, and we are in the process of getting a number of comments from public transit agencies and private charter operators as well.

The agency has had a number of complaints from private operators who take the position that the publicly funded charter operations are unfair competition. We do not intend to issue a rule that would prohibit public transit agencies from providing charter service, but we are trying to make sure that the private charter operator is not unfairly competed with. We hope that during this public comment process, which we are considering extending at the request of some of the public transit agencies, to get a better idea of the overall impact of that on their operating budgets.

Senator KASTEN. Thank you. I just think it is important if we do have a chance to pick up a little revenue, we ought to try to do it. But I understand your point.

Mr. Chairman, I have got a couple of additional questions I would like to submit for the record.

Senator ANDREWS. Thank you. We will include those questions for the record.

Senator Sasser.

REORGANIZATION OF REGIONAL OFFICES, ATLANTA AND PHILADELPHIA

Senator SASSER. Thank you, Mr. Chairman.

I would like to thank the chairman for allowing me this opportunity this morning to reiterate my concerns to Administrator Stanley regarding the reorganization of the Atlanta Urban Mass Transportation Administration Office.

Now, I believe the actions of Mr. Stanley in this matter demonstrate his lack of concern for southern mass transit systems and for congressional approval prior to any major reorganization.

I have twice this year voiced my concern about this reorganization to Mr. Stanley, once on April 9, 1986, before the Banking Committee. I requested at that time a report on the cost-effectiveness of this reorganization. I have not yet seen a report, nearly 1 month later. I reiterated my desire for such a justification on April 16, when Mr. Stanley was again before the Banking Committee. To this day, neither myself nor my staff has received a letter, a phone call, or any other communication to acknowledge that such a justification is being prepared.

Now, Mr. Chairman, I wish we had some piece of paper before us this morning that would explain why moving mass transit functions as they affect my State of Tennessee from the Atlanta office to a Phildelphia office makes sense, because without it I am really at a loss to understand why UMTA could not simply hire an Atlanta regional administrator to replace the administrator who is leaving, Ms. Adams, and balance the grant workload by either hiring additional staff in Atlanta or moving staff from Philadelphia to Atlanta.

They might find people would like to move out of the cold climate in Philadelphia into the warmer, more balmy environs of Atlanta.

The Philadelphia office seems to have a lighter workload and there is presently more staff there than in Atlanta.

Now I am sure I do not need to tell Mr. Stanley the kind of confusion that reigns in the Atlanta region these days. Not one of the transit authorities in Tennessee has received any official notification of the transferral of functions from Atlanta to Philadelphia.

For example, the Knoxville Transit Authority was told by the Philadelphia office last week to send grant proposals to Atlanta and told by the Atlanta office to send the grant proposals to Philadelphia. So they do not know where to send them, whether they ought to send them to Atlanta or Philadelphia, and in this case I am very concerned that grant processing will be delayed and that Tennessee transit authorities who are hard-pressed right now will be forced to borrow money and pay interest just to keep the systems operating.

Now, I have no doubt that Mr. Stanley and his colleagues would like to see the most efficient management possible for UMTA's Southern Region. We all would. But I would urge Mr. Stanley therefore to refrain from effecting this reorganization at least until he has provided Congress sufficient justification for the move.

And, Mr. Chairman, with your permission, there are one or two questions I would like to propound.

Senator ANDREWS. We will be glad to include those questions for the record, Senator.

Senator SASSER. Would it be possible to ask them verbally, Mr. Chairman, or are we running out of time? I see. All right. I will just submit them for the record, and I thank the chairman for his courtesy this morning.

SUBMITTED QUESTIONS

Senator ANDREWS. We appreciate the Senator's stopping by and we appreciate his contributions. Let me point out, Mr. Stanley, that there are a number of questions that members refrain from asking orally because of time constraints, including my own. They will be included for the record, and we would hope that you could get those answers up to us within the appropriate time.

Mr. STANLEY. We will do that, Mr. Chairman.

Senator ANDREWS. Thank you for your appearance here today.

Senator ANDREWS. Our next witness will be Carmen Turner, the head of the Washington Metropolitan Transit Authority.

I understand that Mr. Stanley will stay at the table as Ms. Turner comes up.

[A brief recess was taken.]

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR ANDREWS

FULL FUNDING AGREEMENTS

SENATOR ANDREWS: Mr. Stanley, in February the Administration proposed recission of $521 million in funds appropriated for "New Start" projects in 9 cities. The 45-day Congressional consideration for this rescission period expired on April 15. Have these funds been released to the cities in question?

ANSWER: These funds are now available to be obligated. UMTA has established May 15, 1986, as the deadline date for submitting all Section 3 discertionary funding applications. We will shortly award funds to Seattle. To date we have not released any of the funds in question.

SENATOR ANDREWS: Have you resumed negotiations with any of the three cities?

ANSWER: UMTA has concluded negotiations with Seattle and a Full Funding Agreement was executed by UMTA on May 15, 1986. UMTA has had further discussions with Los Angeles concerning the UMTA March 18 draft and I would expect that discussions with Los Angeles will continue and that an agreement would be reached in the near future. We have had several discussions in recent weeks with Miami concerning the execution of a Memorandum of Understanding.

SENATOR ANDREWS: Have any of these cities indicated a desire or willingness to accept the Full Funding Agreement terms now offered by UMTA?

ANSWER: It is presumed that Seattle will accept the Full Funding Agreement offered by UMTA on May 15, 1986. We have reached agreement on a number of issues with Los Angeles, and it is expected that our negotiations with them will soon be concluded. Miami, however, has a significant obstacle to overcome. The Federal government cannot obligate funds or express an intention to commit to a project of this magnitude until the environmental process as outlined in the National Environmental Policy Act (NEPA) and the UMTA environmental regulations is complete. Dade County has only just recently begun the environmental process on the extensions to the Metromover and until the process is complete, UMTA can neither obligate funds for nor express an intention to commit funds to the Project.

SENATOR ANDREWS: How do your proposed full funding agreements differ from those proposed by each of the cities?

ANSWER: Major Deficiencies of Original Draft Submitted by SCRTD for Los Angeles:

The SCRTD draft stated that upon execution of the contract, UMTA commits $429 million for the project. The draft did not acknowledge that only $226 million has been appropriated and earmarked for the project or that a shortfall of $203 million to complete the project exists.

The SCRTD draft failed to recognize that a local commitment on the $203 million shortfall is required before UMTA will obligate to the project any of the appropriated funds.

The SCRTD draft stated that local funds utilized for the project would be eligible as local match for future Federal funding for segments beyond MOS-1. This letter of no prejudice provision is unacceptable to UMTA because it imposes a Federal commitment to a new project beyond MOS-1.

The SCRTD draft stated that any future section 3 funds which may be made available by the Congress shall be used for Metrorail and required a good faith effort by UMTA to fund the future Federal share by giving it equal priority to all new start project presently covered by full funding contracts and priority over new start project not covered by full funding contracts. This is unacceptable to UMTA because it represents an outyear commitment of funds not yet authorized.

The SCRTD draft did not include a specific provision requiring the SCRTD to pay back to the Federal government the full amount that the Federal government has contributed to the project in the event of a default.

The SCRTD draft included language requiring the payment of extraordinary costs from the section 3 account. The draft fails to recognize that section 3 expires at the end of FY 86.

The SCRTD draft proposed to provide an extraordinary cost category for "the unstable insurance market." UMTA is attempting to limit the extraordinary cost categories, not expand them. This has never been a category of extraordinary costs in the past. In addition, it is not consistent with the philosophy behind the extraordinary cost provisions.

The SCRTD draft stated that the capital reserve account would be funded in an amount "deemed to be prudent" by the Los Angeles County Transportation Commission (LACTC). UMTA requires that the capital reserve account be funded with local funds in an amount equal to 10 percent of the total project costs.

The SCRTD draft included a provision allowing the date of completion of the project to be delayed by two years if local funds are required to fund the $203 million shortfall.

Major Provisions in UMTA March 18, 1986 Draft for Los Angeles:

The UMTA draft recognizes that a $203 million shortfall in funding exists for the project and provides that the LACTC will commit to pay for the shortfall with local funds until and unless the Congress reauthorizes and appropriated funds for the program and project.

The UMTA draft includes an attachment in the form of a full financial agreement to be signed by the SCRTD, the LACTC, the City of Los Angeles, and UMTA which outlines the financial responsibilities of those parties as they relate to funding of the capital reserve account and the $203 million shortfall.

The UMTA draft includes a standard remedies clause which recognizes that the SCRTD may have to pay back to the Federal government the full amount that the Federal government has contributed to the project in the event of a default.

The UMTA draft recognizes that UMTA must decide whether a supplemental environmental impact statement on the project is required before a contract for construction can be signed.

Major Deficiencies in the Miami January 31, 1986 Draft:

The Dade County draft did not acknowledge that the shortfall of $73.1 million which exists is to be provided from local funds until and unless Congress reauthorizes the UMTA program and appropriates funds for the project.

The Dade County draft did not recognize that an environmental impact statement, as required by NEPA, must be completed and a Record of Decision issued before UMTA can obligate funds or express a commitment to the project.

The Dade County draft provided for a definition of "project" which is not really a definition--it actually provides for a reduced scope if all Federal funds are not available. This is unacceptable to UMTA because the scope of a project funded under a full funding contract must be known when the contract is executed.

The Dade County draft provided that the date for completion of the project would automatically be extended if there is a delay in Federal funding. This is unacceptable to UMTA because local funds to complete the project must be committed up-front before the contract is executed. Since the funds to complete the project would be avialable, there is no reason to delay completion.

The Dade County draft provided that there will be no Federal funds provided until the local funds are levied and approved. This is unacceptable to UMTA because there is no indication up-front that there will be any local funds. MDTA has endorsed the creation of a Special Assessment District which would provid part of the local share. This District has not yet been created, and the draft does not recognize or provide for how local share would be paid in the absence of the Special Assessment District.

The Dade County draft made no provision for a Capital Reserve Account. This is unacceptable to UMTA--the Capital Reserve Account, consisting of local funds, is necessary to ensure that there are funds available to pay for cost overruns.

The Dade County draft gave either party the right to terminate the contract if local dedicated funds are not levied and approved. UMTA would not enter into a contract until all of the sources of local funds are assured and in place.

Major Provisions of UMTA March 18, 1986 Draft for Miami:

The UMTA draft would not obligate funds. It merely recognizes that Congress has appropriated funds for the UMTA discretionary account and has earmarked $107,866,000 in FY 84, 85, and 86 funds from that account for construction of the Miami project.

The UMTA draft recognizes that a shortfgall in funding from all sources exists in the amount of $72,134,000, and that any agreement between UMTA and Miami must provide for a local commitment to this shortfall until and unless Congress passes legislation reauthorizing and appropriating funds for the UMTA discretionary program.

The UMTA draft provides for the establishment of a Capital Reserve Account.

The UMTA draft provides that in the event of a default on the part of Miami, the Government may demand that all Federal funds provided to Miami for the Project be returned to the Government.

Seattle:

A Full Funding Agreement was offered to Seattle on May 15, 1986, and it is expected that it will be accepted by Seattle.

SENATOR ANDREWS: Since the original appropriation of funds for some cities for fiscal year 1984, and others for fiscal year 1985, UMTA has besides asking for deferrals and rescissions, issued a "privatization statement." Have these actions imposed additional requirements on these cities since the initial appropriation of funds?

ANSWER: It has been a continuing requirement of UMTA to make findings with respect to private sector participation before any UMTA grant can be approved. The guidelines are provided to help grantees better focus their response so that lengthy reports can be avoided.

SENATOR ANDREWS: What major issues remain to be resolved with Miami, Seattle, and Los Angleles before full funding agreements can be executed?

ANSWER: UMTA executed the Full Funding Agreement for Seattle on May 15, 1986 and transmitted it to Seattle for their review and execution.

With regard to Los Angeles, several issues remain outstanding. A shortfall in funding to complete the project exists in the amount of $203,168,601. The UMTA draft contract sent to Los Angeles on March 18 recognizes that a shortfall in funding exists and provides that the Los Angeles County Transportation Commission will commit to pay for this shortfall with local funds until and unless the Congress reauthorizes and appropriates funds for the UMTA program.

There are two major environmental issues facing this project. Both of these issues are related to the existence of methane gas in the area of proposed construction. One of these issues must be resolved before a contract can be executed. UMTA must make a determination of whether construction can proceed on the first 4.4 mile segment of the Metrorail system without a Supplementary Environmental Impact Statement being completed. The SCRTD has submitted a complete factual and legal report to UMTA concerning this issue. UMTA legal and technical staff are currently in the process of reviewing it and preparing a complete legal and technical evaluation of UMTA's position. It is expected that UMTA's effort will be completed in the near future.

The second issues involves the need to prepare a Supplementary EIS for the route beyond 4.4 miles. This action is necessary since Congress has directed that Los Angeles not construct in any area where there is a high risk of methane gas being present. As a result, the original route beyond 4.4 miles must be revised and since a new allignment will be chosen, further environmental anyalysis must be perform. The major question is whether a Federal Environmental Impact Statement must be done since no Federal funds are available beyond 4.4 miles.

There are several major issues remaining outstanding on the Miami project. First, the draft contract submitted to Miami on March 18, 1986 does not contemplate that Federal funds would be obligated, at this time, if a document is executed between Miami and UMTA. The draft merely recongizes that Congress has appropriated funds funds the UMTA discretionary account and has earmarked funds for the Miami project. Second, the issue of completion of an Environmental Impact Statement is closely linked to UMTA's inability to obligate funds at this time. It is UMTA's position that it may neither execute a full funding agreement nor obligate or otherwise announce an intention to obligate funds for the project until after the completion of an Environmental Impact Statement and the issuance of a Record of Decision by UMTA. It is expected that the environmental process will not be completed until early 1987. Third, a shortfall in funding to complete the project exists in the amount of $72,134,000. Any formal agreement between UMTA and Miami would have to provide for a local commitment to this shortfall until and unless Congress passes legislation reauthorizing and appropriating funds for the UMTA discretionary program. Miami intends to use a dedicated source of funds to cover the shortfall, but the dedicated source has not yet been enacted.

SENATOR ANDREWS: Have all funds appropriated in FY's 1984, 1985, and 1986 for "New Start" in 6 other cities - San Diego, Jacksonville, St. Louis, Houston, Buffalo, and Atlanta - been released for obligation? If not, why?

ANSWER: Yes, these funds are now available for obligation.

SENATOR ANDREWS: Does each of these 6 cities have a full funding agreement with UMTA?

ANSWER: Of these six cities, only the new start projects in Jacksonville and Buffalo are funded under a full funding contract at this time.

SENATOR ANDREWS: Have you released any 1984, 1985 or 1986 Section 3 funding to any city that has not executed a Full Funding Agreement? If so, Why?

ANSWER: Yes. The following tables identify FY 1984 and FY 1985 earmarks along with the amount of funds obligated and why the obligations were made. UMTA has not obligated any of the FY 1986 earmarks at this time.

EARMARKED NEW START OBLIGATIONS NOT UNDER FULL FUNDING CONTRACT
($ IN THOUSANDS)
FY 1984

	Earmarked	Obligated	Why obligations were made
1 Atlanta	$91,250	$91,250	Reimbursement under Letter of No Prejudice
2 Houston	5,500	5,500	Busway Engineering; Pre-FFC stage
3 Los Angeles	117,200	105,400	Engineering (Wilshire Rail Line:MOS-1; Pre-FFC stage
4 St. Louis	2,000	2,000	EIS; Pre-FFC stage

FY 1985

	Earmarked	Obligated	Why obligations were made
1 Atlanta	$95,000	$95,000	Reimbursement under Letter of No Prejudice
2 Houston	35,000	35,000	NW Busway construction; Project too small for FFC
3 Seattle	20,000	20,000	Tunnel Engineering: Pre-FFC Stage

SENATOR ANDREWS: For the record provide the Committee a brief report on the following projects and Congressional appropriations. Include a brief description of the activities to be funded with the amount provided each year. The status of the federal contribution, and the status and source of the local contribution. Each description should be of the dollar amount by the year provided. If the funds have not been obligated provide the reasons why and the Department's estimate of when the funds will be released. Including a description of conditions necessary to be met by either UMTA or the local agency before the funds could be obligated.

(IN MILLIONS OF DOLLARS)

CITY	AMOUNT	YEAR APPROPRIATED
Atlanta	$ 66.03	1986
Buffalo	.81	1986
Houston	52.40	1986
Seattle	23.59	1986
St. Louis	10.00	1985
St. Louis	12.92	1986
Jacksonville	1.80	1985
San Diego	8.30	1984
San Diego	3.00	1985
San Diego	8.90	1986
Miami	22.50	1984
Miami	49.00	1985
Miami	36.37	1986
Los Angeles	12.00	1984
Los Angeles	117.00	1985
Los Angeles	96.66	1986

ANSWER: The following table provides the information requested.

STATUS OF NEW START EARMARKS

CITY	AMOUNT ($MILLION)	YEAR APPROPRIATED	ACTIVITIES TO BE FUNDED	FUNDING STATUS	COMMENTS
Atlanta	$66.03	1986	Phase C Construction	Not obligated. Local capital funds from dedicated sales tax are committed to project.	Application being prepared by MARTA.
Buffalo	0.81	1986	The NFTA does not presently intend to apply for these funds. It may later request these funds for the Naval Park LRRT station.	Not obligated. If the NFTA ultimately applies for these funds, local match for designing the station may be sought from NY State. Construction would be performed with private funds.	Grant application has not been prepared.
Houston	52.40	1986	SW Transitway Construction	Not obligated. Local funding from dedicated sales tax.	Application under review.
Seattle	23.59	1986	Busway tunnel Construction	Obligated. Local funds provided by sales, motor vehicle and excise taxes plus bonds.	Full funding contract signed 5/15/86.

CITY	AMOUNT ($MILLION)	YEAR APPROPRIATED	ACTIVITIES TO BE FUNDED	FUNDING STATUS	COMMENTS
St. Louis	10.00 12.92	1985 1986	Final design for LRT line	Not obligated. Local in-kind match.	Preliminary engineering, incl. final EIS, is not complete.
Jacksonville	1.80	1985	Automated Skyway Express	Not obligated. Local match would be from State and City general revenues.	Grant application has not been prepared.
San Diego	8.30 3.00 8.90	1984 1985 1986	Construction of East Urban LRT from Euclid to El Cajon	Not obligated. Local capital funds from State sales tax are pledged to project.	Final EIS is being prepared. Full funding contract must be negotiated.
Miami	22.50 49.00 36.37	1984 1985 1986	Construction of Metromover legs to Omni and Brickell	Not obligated. Local match to be provided by special tax district and State of Florida.	Draft EIS is being prepared. Full funding contract is being negotiated.
Los Angeles	12.00 117.00 96.66	1984 1985 1986	Metrorail construction (MOS-1)	Not obligated. Local capital funds are pledged to project by city, State, LACTC, and thru benefit assessment district.	Full funding contract being negotiated. Funds will be obligated once contract is signed.

TRANSFER OF FUNDS

SENATOR ANDREWS: The FY 1986 DOT Appropriation Act directed UMTA to transfer $39.1 million in unobligated balances from the Research, Training and Human Resources Appropriation to other DOT account. These transfers include $5 million to FHWA for access highways to Public Recreation Projects on Certain Lakes; $4 million to FHWA for a rail line consolidation project; $1.35 million to FHWA for an airport-highway demonstration project; $5 million to NHTSA for highway safety functions; $5 million for Conrail commuter transition assistance; and $18.75 million to the UMTA Interstate Transfer Account. When were these funds transferred as required by law?

ANSWER: In accordance with the DOT and Related Agencies Appropriation Act, 1986 (P. L. 99-190 Stat. 1185), funds in the amount of $39,100,000 were transferred to other activities on March 14, 1986.

SENATOR ANDREWS: Why was there a delay in the transfer of funds?

ANSWER: The FY 1986 DOT Appropriation Act provided for the transfer of $39.1 million of Research, Training, and Human Resources funding from UMTA to FHWA, FRA, and NHTSA, as well as to UMTA's Interstate Transfer Grants program. The transfers were sent to Treasury on March 14th.

When we first discussed the transfers with Treasury, they said to wait until the Continuing Resolution containing the DOT Appropriations Act was published in order to have a statutory reference. We are unaware of any delay in the obligation of funds in any of the agencies as a result of these transfers being somewhat delayed.

SENATOR ANDREWS: Mr. Stanley, in a February 18 memorandum to Federal Highway Administrator, Barnhart, you asked him to make every effort to fund these projects using regular Federal-Aid Highway funding so as to preclude the need for funding to be transferred from UMTA's Research, Training, and Human Resources appropriation. On what authority did you intend to prevent these transfers as required by law?

ANSWER: The transfers were made through Treasury on March 14, 1986.

SENATOR ANDREWS: In your memorandum to Administrator Barnhart you stated that the projects to be funded by the highway transfers are clearly pork-barrel and provide direct benefits only to very small local areas. One of the projects selected for access to lakes funding in 1986 is an upgrade of 20.6 miles of road adjacent to Lake Audobon in North Dakota that is used not only by residents of my States, but also visitors from surrounding States. On what basis do you consider yourself qualified to make judgments regarding the quality of individual highway projects?

ANSWER: Projects selected for funding under the

Federal Highway "Access Highways to Lakes" program are based on State and local priority decisions concerning benefits. The fact that these projects have been earmarked by the Congress outside the normal decision-making process leads one to question the reason for such action. The transfer of this funding from UMTA's "Research, Training and Human Resources" account will now reduce the funding that could have been applied to important research projects in transit safety, civil rights, and private sector initiatives.

SENATOR ANDREWS: How would you distinguish the so-called "Local Benefits" of these projects from the "Local Benefits" of mass transit grants to large cities?

ANSWER: This Administration has repeatedly pointed out that the benefits to be derived from transit accrue to localities. For this reason, we have argued that subsidizing transit is not really a proper role for the Federal Government and we have requested reduced funding each year.

REAUTHORIZATION BILL

SENATOR ANDREWS: Mr. Stanley, the Administration has proposed sweeping changes for the transit program in its "Surface Transportation Reauthorization Act of 1986": What is the status of the Administration's proposal?

ANSWER: At this point the Committees in the House and Senate with jurisdiction over transit reauthorization legislation have not held a mark up session, so we do not know to what extent any of our legislative proposals are being considered for inclusion in the reauthorization bill.

SENATOR ANDREWS: The target date for reporting authorization legislation that affects 1987 spending is May 15th. Will that target date be reached by either the House or Senate Committee's with jurisdiction?

ANSWER: No, neither Committee reported a reauthorization bill by May 15th.

SENATOR ANDREWS: What in your estimation is the reason for the difficulty in reporting a new reauthorization bill out of the Committee?

ANSWER: Concern about the impact of the Gramm-Rudman-Hollings legislation and about the deficit in general is probably the single biggest reason.

SENATOR ANDREWS: Mr. Stanley, the Administration's proposed Surface Transportation Reauthorization Act would eliminate the Section 9 Formula Grant Program and the Section 3 Discretionary Grant Program, and instead provide funding for mass transportation through a combined highway/transit block grant program. About $1.1 billion annually from the Mass Transit Account makes up the entire transit contribution into this block grant program. While acknowledging the challenge that confronts us in attempting to balance the Federal budget, how do you justify a 60 percent decrease in mass transit funding when total transportation funding under the President's budget decreases by only 20 percent.

ANSWER: We believe the amount provided represents a reasonable Federal share of the total cost of providing a basic level of mobility for the citizens of these areas. Since the benefits of transit are local, we believe that the transit infrastructure problem in these cities, like all of transit, is primarily a local responsibility. The Federal role should be limited to ensuring that those funds made available are spent on the highest priority projects in terms of their cost-effectiveness. The Federal Government should not be considered as being responsible for providing all funding for modernizing the rail systems in these cities. Much of the investment needed should be funded at the local level.

SENATOR ANDREWS: Do you consider mass transportation investments to be of national benefit? Why, or why not?

ANSWER: We believe that the benefits of mass transportation investments accrue to the local area in which they are made.

The primary beneficiary of mass transportation is the user who presumably is provided an enhanced level of mobility by the investment. This can mean a savings in travel time or cost or the ability to make a trip at all when an alternative is not available. On the average, the user pays only 40 percent of the operating cost and none of the capital cost of the service being used.

Other beneficiaries include property owners and developers along transit lines whose property values are enhanced because of the increased accessibility provided by the line. Since most transit systems are radially oriented, many of these owners and developers are in the downtown. Today, few of these indirect beneficiaries pay any of the costs of the public investments providing them a private gain. Efforts at joint development and value capture could recover some of the costs of the investments from these beneficiaries.

In addition, transit service can produce benefits to a broader portion of the public in an urbanized area through an overall increase in accessibility, reduced congestion and reduced air pollution (although much evidence indicates that these latter benefits are extremely limited). Presumably, local subsidies to transit use represent payment by these beneficiaries for a share of the costs.

None of these are national benefits. All accrue to local area residents or land owners.

SENATOR ANDREWS: Do you expect a shortfall in meeting transit needs to result from the proposed Federal program reduction?

ANSWER: We believe that the amount of funding provided and the added flexibility afforded by our block grant proposal, together with additional local and private sector resources, will be adequate to fund those transit capital activities which are cost-effective. Better targeting of funds from all these sources, avoiding wasteful new starts and improvements to existing infrastructure whose limited use does not warrant continued operation, can assure that those portions of the system which are well used are to be maintained in a condition which the patrons deserve.

Consistent with this view, we have recently seen increasing contributions to transit infrastructure investments from the State and local governments. The States involved have reported budget surpluses, unlike the Federal Government's $200 billion a year deficit, and a number have recently cut taxes. The capacity exists at that level, to make up any reductions in Federal funding mandated by a need to reduce the Federal deficit.

In addition, we have seen increasing interest on the part of the private sector to become involved in financing transit infrastructure improvements. Also, given the benefits obtained by private property owners and developers from the operation of present or proposed transit facilities, it is only right that they be called on to pay a portion of the cost of these facilities.

The Block Grant legislative proposal will also give these areas an opportunity to use former highway funds to make up any cuts in Federal transit assistance. Over $300 million in highway funds attributable to these urbanized areas themselves, as well as the remainder of the Block Grant being programmed by the States, could be used for transit, if the projects were sufficiently cost-effective to be given high priority.

SENATOR ANDREWS: Under the Administration's proposed block grant program, any or all of the $3.3 billion pot could be expended for highway purposes even though $1.1 billion of the funds are derived from the Mass Transit Trust Fund. In your estimation, how would mass transit projects fare in direct competition with highway projects for scarce funds?

ANSWER: Many State and local governments have been increasing their financial support of transit. This vote of confidence in transit by the very organizations that will have control over the division of funds augurs well for the ability of transit interests to retain a growing share of the funding available.

The allocation of the $3.2 billion (after takedowns for UMTA Administration, Research, Planning and Elderly and Handicapped) in funds would be as shown in the following table.

	Programming Authority			
	Areas Over 1,000,000	Areas 200,000- 1,000,000	The States	Total
	(millions of dollars)			
Mass Transit Account	$817	$163	$128	$1,108
Highway Trust Fund	376	164	1,560	2,100
	$1,193	$327	$1,688	$3,208

The legislative proposal contains a number of protections to assure transit receives a fair share. For example, urbanized areas over 200,000 retain the programming authority for funds attributable to them.

SENATOR ANDREWS: Do you believe that at least $1.1 billion per year would be expended for mass transportation projects?

ANSWER: While we cannot be sure how the local areas will choose to use these funds once the federally imposed modal constraints are removed, we believe that a significant share of the Mass Transit Account funds, together with some of the Highway Trust Fund dollars, would go for cost-effective transit projects. The evidence of increased State and local support, and of use of Interstate Substitution funds for transit when it was made available on a similar no-strings-attached basis, indicate that transit should receive a fair share.

TRUST FUND

SENATOR ANDREWS: The Mass Transit Account Trust fund is projected to bring in about $1.2 billion annually in receipts from the one cent fuel excise tax and another $300 million in interest on its cash balance. Why doesn't the Administration request full use of the yearly revenue of this trust fund?

ANSWER: The one penny per gallon user fee on motor fuels generates about $1.22 billion per year for mass transit capital projects. In FY 1987, program levels proposed for both FHWA's Highway Account and UMTA's Mass Transit Account are at levels which make full use of that year's user fees.

In FY 1987, if interest revenue in the Mass Transit Account were allowed to be expended, it would increase the total Federal deficit and would increase the Department's difficulty in meeting its Gramm-Rudman outlay targets.

In accordance with the law, Treasury holds the funds in the Mass Transit Account in the form of interest bearing securities. Interest payments are expected to generate an additional $275 million in FY 1986 and $313 million in FY 1987. Thus, this interest revenue plus existing Mass Transit Account balances, are the basis for projecting that the Mass Transit Account can support a higher level than $1.22 billion. The following table shows the projected interest on the assets of the Mass Transit Account:

MASS TRANSIT ACCOUNT REVENUE
(in millions of dollars)

	FY 1985 (Actual)	FY 1986 (Est.)	FY 1987 (Est.)
Motor Fuel Taxes	$1,214	$1,078	$1,216
Interest	206	275	313
Total Revenue	$1,420	$1,353	$1,529

The interest revenue deposited into the trust fund represents an intragovernmental transfer from the general funds of the Treasury to the Mass Transit Account. If this interest was expended, it would add to the Federal deficit.

SENATOR ANDREWS: Do you believe that user fees should be used as intended? If not, why not?

ANSWER: We believe precisely that. Our legislative proposal provides for all of the user fees to be used for transportation improvements. The level of funding proposed is consistent with our estimate of the revenue generated by the gas tax and dedicated to the Mass Transit Account, and is designed to make the program deficit neutral. What it does not provide is for the interest on the trust fund to be used for these investments. The interest paid by the Treasury on the trust fund balance is not a user fee but an intergovernmental transfer from the general fund which must be raised by increased government borrowing and so adds to the budget deficit.

SENATOR ANDREWS: Mr. Stanley, you testified before the House Transportation Appropriations Subcommittee that under the Administration's reauthorization proposal, because the mass transit program would no longer receive funding for general taxpayer revenues, it would no longer contribute to the Federal deficit. With the mass transit account balance projected to increase to almost $4.2 billion by the end of 1990, isn't this dedicated trust fund being used to reduce the Federal deficit?

ANSWER: In calculating annual budget deficits only total annual revenues and total annual Federal expenditures are considered. The difference between these amounts determines the annual deficit. Since balances, per se, do not represent either a Federal revenue or a Federal expenditure, they are not considered in the calculation of annual budget deficits. Of course, income into a trust fund and outlays from a trust fund are included in the calculation of the total annual Federal deficit.

SENATOR ANDREWS: In your opinion, is it fair to transportation taxpayers to withhild distribution of dedicated revenues?

ANSWER: No, it is not fair. And our legislative proposal does fairly distribute the revenues from the user fee. What it does not do is distribute interest on the balance in the Mass Transit Account which comes by an intergovernmental transfer not paid by the users but by the general taxpayer (or more precisely in an era of $200 billion deficits, by more borrowing).

SENATOR ANDREWS: When would it be your intention to draw upon the balance in the Mass Transit Account of the Highway Trust Fund?

ANSWER: Though trust fund balances do not enter into the calculation of annual budget deficits, expenditures from those balances do count as outlays. If the Federal Government were to draw down those balances, Federal expenditures and the Federal deficit would increase.

Programmatically, it would be fiscally irresponsible to draw down the Mass Transit Account balance since this balance is needed to pay off transit obligations incurred in prior years. It is not as if that balance is just sitting there waiting to be spent; much of it is already encumbered. The existing cash balance is required to meet the Federal Government's transit bills when they come due.

SENATOR ANDREWS: In your opinion, should interest be paid on the balance in the Trust Fund? Why, or why not?

ANSWER: In accordance with the law, Treasury holds funds in the Mass Transit Account in the form of interest bearing securities. No prudent financial manager in the private sector would allow billions of dollars to sit idle and not earn interest, the cost of capital. The Government is no different. Therefore, we are not against fund interest earning accruing to fund revenue; in fact, we support it.

The problem is that in the Government the interest revenue deposited into the trust fund represents an intragovernmental transfer from the general funds of the Treasury to the Mass Transit Account. The Department of Transportation's policy is that transit, as well as highways and FAA, should be financed from user fees, so as not to add to the Federal deficit. Use of fund interest (derived from general revenues) would be delayed for the next five years while there is significant risk that the reduction provisions of Gramm-Rudman-Hollings will be triggered.

SENATOR ANDREWS: The Federal Highway Administrator has in the past supported an Off Budget Highway Trust Fund. Do you support an Off-budget Transit Trust Fund? Why not?

ANSWER: No, I am strongly opposed to taking the transit trust fund off budget. Off-budget Federal entities are federally owned and controlled, but their transactions are excluded from the budget totals under provisions of law. If the trust funds were taken off-budget, their annual receipts, outlays, and net surplus or deficit would not be included in these budget totals and would not be subject to the targets set by congressional budget resolutions. However, these budget totals are misleading and not a true picture of the Federal fiscal position. The actual amount of the Federal deficit -- the real amount the Federal Government must borrow from the public -- includes any surplus\or deficit of the off-budget Federal entities. Recognizing this, OMB adds the surplus or deficit of the off-budget Federal entities to the "budget" deficit to determine the real total Federal Government deficit and publishes this figure in the budget.

SENATOR ANDREWS: One of the principal objectives of the Department of Transportation has been to fund transportation needs through user fees to help reduce the Federal deficit. As Administrator of UMTA, could you or do you support an increase in the excise tax to bring more revenue into the trust fund, if this in turn reduced the need for general revenues?

ANSWER: The President has stated unequivocally his opposition to any tax increase to support increased spending. Accordingly, we would not support any increase in the gas tax to support transit.

We believe that the amounts generated by the one cent gas tax dedicated to the Mass Transit Account of the Highway Trust Fund to be sufficient to support a limited Federal role in assisting State and local governments to assure a basic level of mobility for their citizens. Indeed, the $1.2 billion is adequate to more than cover the annual costs to replace the Nation's transit fleet.

The principal concern with public transit today is the continuing decline in productivity and escalation of cost. A goal of increased productivity must rank ahead of increased funding. Mobility needs in our changing urban areas cannot be met by simply throwing more money at the problem.

Additional funds have typically gone to support major capital projects such as new starts, many of which have proven not to be a cost effective use of Federal funds. In addition, congressional earmarking of these funds has prevented us from directing these funds to those projects which are more cost-effective.

SENATOR ANDREWS: Your budget justification states that since the penny gas tax for transit is collected nationally, it is also appropriate that it be allocated nationally so that, to the greatest degree possible, all payers of this tax may receive benefits from it. Under the Administration proposal, North Dakota's total transit formula funding is reduced by half to approximately $917,000. Yet North Dakota taxpayers contribute approximately $4.5 million per year to the Mass Transit Account. Based on your philosophy of allocating the benefits of this program nationally, would you support an 85 percent minimum allocation similar to the highway program? If not, why?

ANSWER: The Administration supports the allocation of the penny gas tax funds by the formula. The formula allocation, which would provide funds to every state based on factors approved by the Congress, would be a fair allocation. Contrast the formula approach with the current Section 3 program which, in FY 1985 provided funds to 24 cities in 20 states.

SENATOR ANDREWS: Would you support a one-half percent minimum apportionment similar to that which exists for all major highway programs? If not, why?

ANSWER: The Administration would not support a one-half percent minimum apportionment for the Mass Transit Account of the Highway Trust Fund. The formula that would be used to apportion funds under the Administration's legislative funds would provide a more equitable distribution of funds. Under the formula, funds for rural areas are distributed on the basis of population, urbanized areas with a population of 200,000 or less are apportioned on population and population density. The percentage of funds for both areas are specified in the legislation. The apportionment factors, coupled with the guaranteed allocations to rural and small urbanized areas, assure that all areas receive a certain minimum level of funding. This approach is preferable to the Administration rather than an arbitrary minimum percentage by State.

SENATOR ANDREWS: Since these block grant funds can be used for either highway or transit purposes, wouldn't it be equitable to provide some minimum return to all States from the transit formula, especially given that the source of these funds is highway user taxes. If not, why?

ANSWER: All States receive funding under the formula. Since the formula for nonurbanized areas is based exclusively on population, even rural states are guaranteed an equitable allocation under the formula. While the formula does provide proportionately greater funding for urban areas than rural areas, transit ridership is concentrated in urban areas. The formulas used to allocate the highway programs funded under the Highway Trust Funds provide proportionately greater funding to nonurbanized areas, therefore, the proposed formulas for distributing the block grant funds remain equitable. If, however, the entire Highway Trust Fund were considered for inclusion in a block grant, it would be appropriate to reevaluate the various allocation formulas.

SENATOR ANDREWS: What do you estimate receipts to the Mass Transit Trust Fund to be in 1986? Why is this level lower than 1985 or 1987?

ANSWER: The Department of the Treasury estimates motor fuel revenues to the Mass Transit Account of the Highway Trust Fund. In FY 1986, the official Treasury revenue estimated $1.078 billion. In FY 1985 and FY 1987, revenues were estimated to be $1.2 billion each year, as shown in the following table:

MASS TRANSIT ACCOUNT REVENUE
(in millions of dollars)

	FY 1985 (Actual)	FY 1986 (Est.)	FY 1987 (Est.)
Motor Fuel Taxes	$1,214	$1,078	$1,216
Interest	206	275	313
Total Revenue	$1,420	$1,353	$1,529

A revenue adjustment was made by the Department of Treasury in October of 1985 to correct an overstatement of funds in the Mass Transit Account and a corresponding understatement in the Highway Account. This explains why Mass Transit Account revenues are about $100 million lower in FY 1986 ($1.1 B) than in FY 1985 ($1.2 B) and our FY 1987 projection ($1.2B).

SENATOR ANDREWS: Have your estimates of Mass Transit fund receipts been updated to reflect the recent drop in the price of gasoline?

ANSWER: The Treasury Department will not revise its estimates of revenue for the Highway Trust Fund until June 1986.

SENATOR ANDREWS: If future estimates of income of the trust fund are increased, would you propose to increase the level of funding provided under the block grant from the Transit Trust Fund?

ANSWER: For any given year, our policy is to manage the Highway Trust Fund in such a manner that expenditures are equal to user fee revenues. That is, program levels for both the Highway Account and the Mass Transit Account should be pegged at levels which make full use of that year's user fees. However, if revenues increased significantly, we would think it prudent for Congress to consider a tax break for the U. S. highway user.

SENATOR ANDREWS: Please provide for the record an analysis of the Mass Transit Account over the period 1987-1990 under your legislative proposal, including starting balance, tax receipts, interest, rate of interest, outlays, and closing balance for each year.

ANSWER: The information follows:

URBAN MASS TRANSPORTATION ADMINISTRATION
PROJECTIONS FOR THE MASS TRANSIT ACCOUNT
$1.22 BILLION LEVEL

	FY 1987 (est.)	FY 1988 (est.)	FY 1989 (est.)	FY 1990 (est.)
Unexpended balance brought for start of year...............	3,180.2	3,769.3	4,173.7	4,520.5
Cash income during year, Gover receipts:				
Motor fuel taxes..........	1,216.0	1,230.0	1,242.0	1,256.0
Interest on investments...	318.0	358.1	365.2	356.0
Total annual income.....	1,534.0	1,588.1	1,607.2	1,612.0
Less: outlays.................	944.9	1,183.7	1,260.4	1,320.4
Unexpended balance brought for end of year.................	3,769.3	4,173.7	4,520.5	4,812.1
Interest rate.................	9.50%	8.75%	7.00%	6.00%

FISCAL YEAR 1986 SUPPLEMENTAL

SENATOR ANDREWS: In the Administration's FY 1986 supplemental request, increased funds for Coast Guard operations and Federal Aviation Administration (FAA) operations were to be "offset" by taking Section 9 operating assistance. Do you agree with this approach for funding other agencies' funding requests?

ANSWER: Under the provisions of the Gramm-Rudman-Hollings Act, any proposed increases in the FY 1986 budget of the Department of Transportation must be offset with a corresponding decrease. Critical funding needs in Coast Guard operations and FAA operations were to be financed, under this proposed supplemental, from less critical Departmental funding needs under Mass Transit Section 9, operating assistance subsidies, to large cities. The cuts proposed for transit operating subsidy cuts proposed in the FY 1986 and FY 1987 Senate Budget Resolutions. The Department supports the reduction and, eventual, elimination of operating subsidies to large urban areas.

SENATOR ANDREWS: Did you participate in the drafting of that request? If not, why not? If so, does this request adequately or correctly reflect your position?

ANSWER: Yes, we prepared the justification for the transfer. The Administration proposed offsetting $94,520,000 of supplemental funding for FAA operations and Coast Guard Operating Expenses by transfer of budget authority from the operating assistance category of Formula Grants. Specifically, the transferred funds would have been taken from the apportionment to all urbanized areas with populations of 1,000,000 or more under Section 9 of the UMTA Act. Thus, the funds available for cities of this size would have been reduced 16.8 percent, from approximately $560 million to $465.5 million.

The Federal share of operating assistance in large cities is only about 6 percent, so the proposed reduction would have only a small adverse impact on them. Further, this action would have been consistent with the Administration's proposed legislation which would terminate all operating assistance to large cities in 1987.

SENATOR ANDREW: What would be the impact of reducing operating assistance by $94.52 million after more than half the year had elapsed?

ANSWER: The Federal share of operating assistance in large cities is only about 6%, so the proposed reduction would have only a small adverse impact on them. Further, this action would be consistent with the Administration's proposed legislation which would terminate all operating assistance to large cities in 1987.

SENATOR ANDREWS: Why was the operating assistance cut targeted at cities with a population greater than one million?

ANSWER: Basically, because Federal operating assistance is such a small part of their overall transit budget and, therefore, would have very little adverse impact.

SENATOR ANDREWS: Haven't these FY 1986 funds already been apportioned to recipients?

ANSWER: Yes.

SENATOR ANDREWS: Has anyone drawn down the apportioned funds that the Administration is targeting for transfer?

ANSWER: The urbanized areas below have drawn down cash in Fiscal Year 1986 for operating assistance as of April 30, 1986:

Boston	$ 20,420,659
Detroit	12,529,655
New York/N.E.NJ	142,479,829
Philadelphia	21,329,543
Pittsburgh	5,561,406
Total	$202,321,092

SENATOR ANDREWS: If not, why are these funds still available? Have they been applied for? Has the Urban Mass Transportation Administration (UMTA) held up the release of those funds?

ANSWER: These funds have been apportioned and are available for use by grantees. As in the past, grantees will apply for and draw down this category of funding throughout the Federal fiscal year. On an aggregate basis, over the last two years, UMTA grantees have carried over approximately 20 percent per year of the available operating assistance funds. As of April 30, 1986, grantees have applied for and UMTA has obligated $412 million in operating assistance funding.

SENATOR ANDREWS: If Congress does not go along with the Administration's request, when will those funds be released? Will they be out the door before the end of this Fiscal Year?

ANSWER: Yes. The funds would be released under our new grant approval and release process on a quarterly basis. However, our experience with operating assistance funds indicates there will be about 20 percent in carryover at the end of this fiscal year.

As of April 30, 1986, over $200 million of the operating assistance funds for areas over 1,000,000 in population had been drawn down.

RURAL TRANSPORTATION

SENATOR ANDREWS: Mr. Stanley, in the past, you have indicated that you felt funding formulas designed to distribute Federal assistance between urban and nonurbanized areas should be reviewed frequently to insure that they allocate funds where they are most needed. Have you taken any steps to review the adequacy of existing funding formulas?

ANSWER: I have viewed with some interest the fact that Section 18 obligations have outstripped annual apportionments in recent years. Many States now have no carryover balance from prior years.

The flexibility afforded the Governors by the STAA to transfer formula funds between urbanized and nonurbanized areas has proved helpful in increasing the level of funding for nonurbanized transit in some States. In FY 1985, $21 million in Section 9 funds were transferred to nonurbanized areas. However, this provides an additional source of funding only in those States where there are unused Section 9 funds available for transfer.

The Administration's urban mobility block grant proposal would make funding available at the State level for either transit or highway needs. Decisions as to how these funds would be allocated between urbanized and nonurbanized areas would then be made at the State level.

SENATOR ANDREWS: Very little, if any, of UMTA's Capital Assistance other than under the Section 16(b)2 program is currently utilized by smaller cities and nonurbanized communities. Can you share with us your recommendations for ways of assisting these smaller communities to make greater use of these discretionary funds? I would be interested in having your views on this matter, particularly in view of the fact that rural motorists contribute over 40 percent of the Federal gas tax revenues used to support the Mass Transit Account of the Highway Trust Fund.

ANSWER: More than 11 percent of UMTA's assistance goes to smaller cities and nonurbanized communities. All of this funding may be used for capital projects. However, very little of the current Section 3 discretionary program goes to these areas. The Administration has proposed legislation to make the Section 3 program a formula program, under the provisions of which smaller communities and nonurbanized areas would be guaranteed a certain percentage of the funds.

SENATOR ANDREWS: Would you please provide for the record a summary of how UMTA's discretionary capital assistance is currently allocated between large urban areas, smaller cities and nonurbanized areas, including Section 16(b)(2) assistance and other Section 3 assistance.

ANSWER: First of all, Section 16(b)(2), Section 8 Planning assistance, Section 4i (Innovation Techniques), and Section 3(a)(1)(c) (Technology Introduction) receive their own side-aside from the Section 3 program as specified in the Conference Report to the annual DOT Appropriations legislation. Section 16(b)(2) funds are further allocated by administrative formula to the states and territories. Section 8 planning funds are also dispensed by administrative formula. The Innovative Techniques and Technology Introduction programs fund promising projects selected from UMTA solicitations. The remainder of the Section 3 funds are grouped by category (New Systems, Rail Modernization, and Bus & Bus Related). At present all New Systems category funds have been earmarked by Congress for projects in large urban areas. The majority of Rail Modernization category funds go to the eight old rail areas (New York, NE New Jersey, Boston, Pittsburgh, Philadelphia, Cleveland, Chicago, and San Francisco). Smaller urbanized areas and nonurbanized areas compete with large urbanized areas for Section 3 bus discretionary awards. Projects proposed from smaller and non-UZA's (along with projects from large UZA's) are evaluated against a bus priority list of five priorities and compared with other projects within the same priority. Candidate projects are finally selected on the basis of priority ranking, outyear demand, and the value of the project to the locality (including degree of local support). Non-urbanized areas are afforded special consideration but must demonstrate that no other funds (Section 18 or Section 9 Governor's Apportionment) are available to fund the proposed project in order to receive serious consideration.

SENATOR ANDREWS: I have been a strong supporter of the Section 16(b)(2) program, which provides needed transportation assistance to the elderly and handicapped. I was pleased, therefore, to see that the President recommended increased funding for this important program in his proposed FY 1987 budget. In rural areas of my State, these funds have been extremely important to social service agencies, senior centers and other local groups which frequently are the only providers of public transportation in their communities. I would like your opinion, therefore, as to whether or not you would support efforts to expand funding under Section 16(b)(2) to include both capital and operating assistance?

ANSWER: We believe the operation of all transit systems, including those services provided with support with Section 16(b)(2) funds to be a local responsibility. Thus, we would oppose making operating subsidies eligible in this program. These funds go to private, non-profit social service organizations. Many of these services already receive support from Federal social service programs. We do not believe it is appropriate to provide Federal transportation funding for support of their operations as well.

NEW LOCAL MATCH PROVISION

SENATOR ANDREWS: Last year I along with Senator Leahy pressed for legislation to make it clear that all social service contract income could be used as local match for the Section 18 program. I was pleased at the promptness with which UMTA issued guidance to the States on that legislation, and I was pleased that the guidance was as direct and straightforward as it was. Has there been any feed-back from the field on the guidance? Have any of the States found it desirable to change their procedures or match requirements in view of the new definition?

ANSWER: The local match amendment went into effect on December 19, 1985, and will apply mostly to grants funded in FY 1986. It is, therefore, too early to assess the full impact of the legislation. Indications are that it will ease the difficulties in raising sufficient local share in at least some States.

RURAL RESEARCH

SENATOR ANDREWS: Does UMTA have any research under way or planned that takes a look at the linkage between public transportation and economic development in rural areas? If not, why not?

ANSWER: We have discussed this type of research with rural transportation officials and find that there is a need to provide technical assistance in the area of rural transportation-economic development. However, with limited resources and extensive requests for such resources, we are unable to meet all requests for technical assistance from the rural transportation community. Given that State governments are generally in a surplus position, whereas the Federal government is currently running a deficit in excess of $200 billion, States are in a position to meet these needs if they choose to do so.

FORMULA GRANT APPORTIONMENTS

SENATOR ANDREWS: On what date was the Notice of 1986 Formula Grant Apportionments issued?

ANSWER: The Federal Register Notice of the FY 1986 UMTA Formula Grant Apportionments was issued on January 24, 1986.

SENATOR ANDREWS: Why did it take you more than a month after the Continuing Resolution (P.L. 99-190) was signed into law to release these funds?

ANSWER: The Section 9 formula is based not only on population and population density (which is updated every 10 years) but on actual operating data submitted by transit authorities annually to UMTA. These new figures have to be taken into account before the formula can be applied and the apportionments calculated. In addition, late data submissions must be considered and evaluated to ensure accuracy and completeness.

SENATOR ANDREWS: Why did you feel it necessary to withhold half of the apportioned 1986 formula funds at that time when the Gramm-Rudman-Hollings legislation suggested only 4.3 percent?

ANSWER: All but two Transportation Department appropriations traditionally apportioned on an annual (i.e., lump sum) basis were apportioned 50 percent in the first quarter and 50 percent in the third quarter to preserve maximum flexibility in deciding the specifics of Gramm-Rudman-Hollings reductions for FY 1986. The Administration wanted to avoid the situation where grants were made, and then recalled. The 50 percent level was chosen so that, in the event across-the-board cuts were not imposed, sufficient funds would be available to implement the Administration's goals and priorities. When it was determined how Gramm-Rudman-Hollings would actually operate, we released all formula grant funds, except the 4.3 percent of 1986 funds sequestered.

SENATOR ANDREWS: When were the remainder of these funds released?

ANSWER: The Federal Register Notice of the Revised FY 1986 UMTA Formula Grant Apportionments, which released all formula grant funds, except the 4.3 percent sequestration, was issued on March 20, 1986.

SECTION 9 - FORMULA GRANT PROGRAM

SENATOR ANDREWS: The Senate Budget Committee's reported resolution assumes a 20 percent cut in operating assistance. If this were enacted, would you recommend that the cut be targeted to cities with a population greater than one million (as the FY 1986 supplemental request did)?

ANSWER: We believe it would be appropriate to target this cut at the larger areas. These areas are much less dependent on this assistance and, thus, would have much less difficulty in adjusting to the elimination of operating assistance. It represents less than 10 percent of the total budget in many of the largest urbanized areas. For example, in New York in 1984, Federal operating assistance represented only 4.4 percent of the urbanized area transit operating cost of $3.3 billion. In Chicago, it was only 5.6 percent of the $877 million total. In fact, ending Federal operating subsidies is very likely to speed up serious action to create a competitive transit environment and improve efficiency.

On the other hand, the small areas are much more dependent. For example, in 1984, Altoona obtained 42 percent of its $1.37 million budget from Federal operating assistance. Oshkosh got 29 percent of its $1.26 million budget and Reno also 29 percent of its $3.35 million budget.

In addition, passage of the legislative proposal recently transmitted to Congress would minimize the impact since it would provide additional flexibility for transit operators in the items eligible for capital assistance under Section 9 by adding tires, materials and other supplies. In many cities, the current cost for these items meets or exceeds the operating assistance cap. For example, in 1984 in New York, the cost of materials and supplies totaled $202.8 million. The 75 percent Federal share of this $152.1 million is just under the operating assistance cap of $154.8 million. In Chicago, these costs totaled $56.5 million, with the Federal share of this at $42.4 million only slightly below the operating assistance cap of $59.2 million. By 1987, these costs are likely to be somewhat higher than they were in 1984, even closer to the cap.

SENATOR ANDREWS: If decisionmaking were best left to the local level, shouldn't any reduction in the Section 9 formula grants program be silent as to where the locals should make the cut? If not, why not?

ANSWER: While the Administration believes that the local officials are in the best position to establish priorities among transit and highway projects, allowing Federal funds to be used for operating assistance has the practical effect of reducing the discretion of these officials. The availability of Federal funds for operating assistance leads to demands for increases in wages and benefits for transit employees that are difficult for local officials to resist. Federal operating assistance has led to transit operating cost increases well above the rate of inflation. If Federal transit assistance is to improve mobility rather than simply increase transit wages, it must be directed to capital expenses.

SENATOR ANDREWS: The Administration budget zeroes out the Section 9-General Fund Program. Besides that used for operating assistance, how else was this fund used in FY 1985? That is, please elaborate as to how much went for bus replacement, fleet expansion of bus or rail, bus garages, etc.

ANSWER: Of the $2,990.1 million available in Section 9 funds for FY 1985, 70 percent was obligated. Of these formula obligations, approximately 62 percent funded capital projects, while the remaining 38 percent funded operating assistance projects. The table provided below summarizes FY 1985 obligations by category:

FY 1985 SECTION 9 OBLIGATIONS
BY CATEGORY
(IN MILLIONS OF DOLLARS)

CATEGORY	AMOUNT OBLIGATED	PERCENT OF AVAILABLE OBLIGATED
OPERATING ASSISTANCE	$ 787.5	26%
CAPITAL ASSISTANCE	1,308.0	44%
Bus Purchases	**(260.0)**	
Bus maintenance facility and bus related	**(356.1)**	
Rail Modernization	**(658.4)**	
New systems	**(33.5)**	
Total	**$2,095.5**	70%

SENATOR ANDREWS: Is this use of these funds different by size of recipient? If so, please describe how and why each size level recipient uses the funds.

ANSWER: The table listed below displays a comparison of capital obligations made during FY 1985 between the three urbanized area (UZA) population groupings comprising the UMTA program.

FY 1985 SECTION 9 CAPITAL OBLIGATIONS
BY POPULATION SIZE
(IN MILLIONS OF DOLLARS)

URBANIZED AREA POPULATION SIZE	FY 1985 AVAILABLE	BUS PURCHASES	BUS MAINTENANCE FACILITY AND BUS RELATED	RAIL MODERNIZATION	NEW SYSTEM	TOTAL OBLIGATED	PERCENT OF AVAILABLE OBLIGATED
Over 1,000,000 (30 UZA'S)	2,067.1	209.4	258.8	650.9	30.7	1149.8	56%
1,000,000-200,000 (86 UZA'S)	570.0	35.2	75.1	0.4	2.8	113.5	20%
Under 200,000 (257 UZA'S)	343.3	15.4	22.2	7.1	0	44.7	13%
TOTALS	2,980.4 (1)	260.0	356.1	658.4	33.5	1,308.0	44% (2)

NOTES: (1) Does not include unobligated Section 9 discretionary funds.
(2) Does not include operating assistance obligations.

SENATOR ANDREWS: How quickly are these funds used? That is, is there a disparity between how quickly the larger cities (over 1 million) apply and get their funding versus the medium-sized cities versus the smaller and rural areas? Why the difference?

ANSWER: There is no apparent disparity between how quickly cities of different population sizes receive funding from UMTA. Different factors such as local fiscal year deadlines and urgency of specific projects may dictate when applications are filed and consequently affect when approvals occur and funds become available. However, in large part these delays are not related to population size.

SENATOR ANDREWS: What areas have the greatest amount of unobligated Section 9 general funds?

ANSWER: The urbanized areas of over 1,000,000 in population have the largest amount of unobligated Section 9 funds in absolute terms, or $343.7 million. This contrasts with $305.8 million for areas between 200,000-1,000,000 in population and $235.5 million for areas under 200,000 in population. However, on a percentage basis, areas over 1,000,000 account for approximately 38% of total Section 9 carryover funds into FY 1986.

GRANT PROCESSING

SENATOR ANDREWS: UMTA recently advised its grantees that if a completed formula grant application is received by the tenth day of a fiscal quarter, the grant application will be acted on by the end of that quarter. How has this policy worked to date?

ANSWER: In the first abbreviated quarterly review cycle which ended April 15, UMTA reviewed 447 formula program applications and awarded 197 grants. In the second cycle, currently underway, UMTA reviewed 423 applications, including the 252 deferred from the first cycle, and proposes to award 319 grants on June 10.

The process has been a success in that an applicant knows that if a complete application is submitted, UMTA will guarantee obligation of funds and the grantee can expect grant award on a specified date. Essentially, once an application is determined to be complete, it receives priority processing to ensure that it will be approved on a specified date.

SENATOR ANDREWS: Are you finding deficiencies in applications being submitted by grantees? If so, to what extent?

ANSWER: UMTA grantees submitted 423 formula program applications [Sections 5, 9A, FAUS and Interstate] for consideration during the second quarterly review period (April 14 to June 10). After review, 319 projects, or 75 percent of those submitted, were recommended for approval; 104 applications (25 percent) were deferred to the next quarterly cycle because they were incomplete. This compares to 447 applications in the first round, with 195 projects (44 percent) recommended for approval.

SENATOR ANDREWS: What is the general nature of these deficiencies?

ANSWER: Reasons for deferring projects were divided into seven major categories plus a general "other." The categories; the number of times a deficiency was cited; and, the percent of projects impacted in both review cycles is as follows:

Category	# Of Citations		% of Projects	
	1st Cycle	2nd Cycle	1st Cycle	2nd Cycle
Missing Private Sector Documentation	97	21	38%	5%
Lacking Transportation Improvement Program/ Unified Planning Work Program	94	20	37%	5%
Inadequate Civil Rights Data	55	11	22%	3%
Funding Problems	36	30	14%	7%
Environmental Issue	17	16	7%	4%
Eligibility/Justification	47	27	19%	6%
Certifications	75	28	30%	7%
Other	81	43	29%	10%

Further review of the deficiencies reported in the first cycle noted that while a lack of adequate Private Enterprise Participation documentation was cited most frequently, it was never the sole reason an application was determined to be incomplete. When projects were deferred for a single reason, it was generally because the applicant failed to meet a statutory requirement. Accordingly, lack of a TIP or UPWP rejected 20 projects; lack of self-certifications 14 projects; general funding deficiencies 7 projects; Civil Rights, Environmental and lack of adequate justification rejected 6 projects each. An additional 14 projects fell into the other category. The primary reason for rejection in the "other" category was lack of an intergovernmental review prior to submission.

SENATOR ANDREWS: If a deficiency is identified in a grant application, how soon and in what manner is the grantee notified?

ANSWER: After applications are received, UMTA devotes 15 working days to the review of applications. At the end of that time, applicants are sent a review letter informing them if their project is incomplete and the nature of the application's deficiencies.

SENATOR ANDREWS: Once a deficiency has been corrected, can a grantee expect to have the application acted on in that quarter?

ANSWER: Once UMTA identifies complete and approvable projects, it places them on a priority list and concentrates its efforts to ensure that all applications on the list are approved on schedule. Applicants who submit incomplete items are encouraged to provide missing or incomplete items or seek guidance from UMTA in developing their projects, but are told that their application will be reconsidered in the next cycle.

SENATOR ANDREWS: What is the average time necessary to process a grant application presently?

ANSWER: It is difficult to define the average time necessary to process an application. If the application is complete, it can almost certainly be processed within 60 to 90 days unless there is diffculty securing certification from the Department of Labor. The problem arises when the applicant fails to submit basic requirements or secure required external endorsements such as intergovernmental reviews or Transportation Improvement Program approval by the local Metropolitan Planning Organization. The burden is on the applicant to meet these legislatively mandated requirements, but if even a crude approximation of an application has been submitted, UMTA's management information system would record it as an application received. Consequently, the statistical analysis of average processing times until now, is unfortunately of little value. In the future, we will be able to document average processing time of complete applications and refine the quarterly review cycles accordingly.

SENATOR ANDREWS: By how much do you expect this new policy to shorten the time period necessary to process a formula grant application?

ANSWER: The new quarterly review process enables UMTA to manage its workload by focusing UMTA resources on approving complete applications. This is a virtual 60 day turnaround of submitted applications, i.e., completed applications submitted April 15 will be approved June 10. The benefit to the applicant will be the reasonable certainty that a complete application will be approved on a specified date. The benefit to UMTA will be an increase in the number of applications which will be complete at the time of submission and therefore require less redundancy and time in processing.

CONSTRUCTION MANAGEMENT OVERSIGHT

SENATOR ANDREWS: Section 323 of the Continuing Resolution (P.L. 99-190) providing 1986 appropriations for DOT allows up to one-half of 1 percent of the funds made available for UMTA discretionary grants, formula grants, Interstate Transfer-transit grants, and Washington Metro grants to be used for contracts related to project management oversight functions on behalf of the Federal government. How is this program operating?

ANSWER: We have progressed through the Federal Architecture/Engineering (A/E) procurement process to a point where we are now negotiating with the most highly qualified A/E firms. Within the next severl months we anticipate awarding Project Management Oversight contracts with ten A/E firms. Simultaneous with these negotiations we are reviewing and prioritizing our needs for Project Management Oversight services on over 25 major UMTA projects. These two activities will come together over the several months and result in the assignment of Project Management Oversight contractors to some of our priority projects. The formal list of firms will be released once Project Management Oversight contracts have been signed.

SENATOR ANDREWS: Has UMTA compiled and released a list of construction management consultants to be used by transit authorities? If so, how many firms are on the list.

ANSWER: No. UMTA does not maintain a list of construction management consultants to be used by transit authorities.

SENATOR ANDREWS: Do such firms geographically represent the entire country?

ANSWER: There is no UMTA list of construction management consultants.

SENATOR ANDREWS: What procedures must be followed if a transit authority chooses to use an oversight firm that is not on UMTA's list?

ANSWER: As stated there is no UMTA list of construction management consultants.

At this point, it is important to distinguish between the roles and responsibilities of transit authorities and UMTA. Transit authorities are responsible for the total management, including construction management, of their own projects. To carry out this responsibility, transit authorities may choose to hire consultant firms to perform certain project functions, such as construction management. The hiring of firms would be accomplished through the transit authorities own procurement process and is not the role of UMTA.

On the other hand UMTA is responsible to assure, through a monitoring function, that transit authorities carry out their project management activities in an efficient and effective manner. It is not UMTA's responsibility to manage projects for transit authorities. To assist UMTA in accomplishing its responsibility, we have chosen to hire, through the Federal Procurement process, consulting firms to supplement existing staff. This hiring of expert consultants by UMTA is part of UMTA's overall Project Management Oversight Program.

SENATOR ANDREWS: What penalty would you impose on a transit authority that does not comply with this policy?
ANSWER: Since by contract (or grant) grantees are required to cooperate with UMTA and authorized representatives of UMTA this will not be an issue.

SENATOR ANDREWS: This provision, as enacted, applies only to funds appropriated in FY 1986. Do you support continuation of this provision?
ANSWER: We do not believe such a provision would be necessary if our legislative proposal, providing for funding through a Block Grant and vesting much of the program management responsibilities with the States, were passed. However, if the current program structure, including provision for large scale projects receiving discretionary funding, is continued, we believe that a provision similar to the one for FY 1986, either in the appropriations itself or in reauthorization, would be very useful in ensuring that these funds are well spent.

SENATOR ANDREWS: Does your proposed reauthorizing bill contain a similar provision?
ANSWER: No.

SENATOR ANDREWS: In what ways does your proposed revision differ from that enacted for FY 1986?
ANSWER: Our legislative proposal calls for the States to take on greater responsibility for program management with compliance with Federal requirements and proper use of funds ensured through assurances by the States. In this case, detailed construction management oversight by the Federal Government would not be appropriate.

OPERATING EXPENSES

SENATOR ANDREWS: The Administration's reauthorization proposal would terminate operating assistance to large cities but would permit block grant funds to be used as operating assistance in small urban areas. What is the rationale for this approach?
ANSWER: The availability of Federal operating subsidies distorts local decisionmaking and relieves local officials of having to bear financial responsibility for the service, fare and labor negotiation decisions they make. The negative effects of this influence are reflected in the fact that the cost to provide a unit of transit service has doubled in real terms since 1965, with the steepest increases since the initiation of Federal assistance. Contributing factors include a 7 percent

drop in labor productivity between 1975 and 1983, absenteeism in transit about 25 percent higher than in other industries, labor compensation rates as much as twice as high as at private operators and a national spare ratio of 46 percent (more than twice UMTA's generous 20 percent guideline).

Meanwhile, transit utilization has also declined. This has occurred because service intensity has decreased as operators spread service thinner to follow the market and increase coverage as well as because of increased auto ownership and reductions in auto operating costs.

As a result, the cost per passenger has increased 129 percent in real terms since 1965.

Federal operating assistance has also allowed operators to avoid developing more equitable and higher yielding fare structures. Thus, total subsidy levels are seven times in real terms what they were in 1970. The user is paying only 40 percent of the operating cost of transit service and none of the capital cost.

Localities need to reexamine their needs and establish a competitive market for meeting them. Without a competitive atmosphere for acquiring transit service, local and Federal taxpayers have no assurance that the disciplines of the marketplace are working to ensure maximum efficiency and productivity.

The Administration does not expect any significant difficulties for large urban areas in adjusting to elimination of operating subsidies. In fact, ending Federal operating subsidies is very likely to speed up serious action to create a competitive transit environment and improve efficiency.

SENATOR ANDREWS: The summary of major provisions accompanying the Surface Transportation Reauthorization Act states that many small and rural areas receive such a high percentage of their operating budget from the Federal government that the sudden cessation of Federal operating assistance might result in serious hardships for them. How do you contrast this hardship with that imposed on large cities by the loss of Federal operating assistance?

ANSWER: We do not expect any significant difficulties for large urban areas in adjusting to the elimination of operating assistance as it represents less than 10 percent of the total budget in many of the largest urbanized areas. For example, in New York in 1984, Federal operating assistance represented only 4.4 percent of the urbanized area transit operating cost of $3.3 billion. In Chicago, it was only 5.6 percent of the $877 million total. In fact, ending Federal operating subsidies is very likely to speed up serious action to create a competitive transit environment and improve efficiency.

In contrast, smaller areas do receive a much higher portion of their budget from Federal operating assistance. For example, in 1984, Altoona obtained 42 percent of its $1.37 million budget. Oshkosh got 29 percent of its $1.26 million budget and Reno also 29 percent of its $3.35 million budget.

Also, any hardship would be mitigated if the legislative proposal is passed since it provides for additional flexibility for transit operators in the items eligible for capital assistance under Section 9 by adding tires, materials and other supplies. In many cities, the current cost for these items meets or exceeds the operating assistance cap. For example, in 1984 in New York, the cost of materials and supplies totaled $202.8 million. The 75 percent Federal share of this $152.1 million is just under the operating assistance cap of $154.8 million. In Chicago, these costs totaled $56.5 million, with the Federal share of this at $42.4 million only slightly below the operating assistance cap of $59.2 million. By 1987, these costs are likely to be somewhat higher than they were in 1984, even closer to the cap.

SENATOR ANDREWS: Do you expect major service and fare changes to result from the loss of operating assistance tO large cities? If not, why?

ANSWER: We believe that our legislative proposal need not lead to any adverse impacts. First, States and localities, which are enjoying generally good fiscal condition thanks to the extended period of national economic growth, could increase transit funding in areas they felt needed additional funds. State surpluses in 1986 are estimated to be over $7 billion. Fifteen States have cut taxes. Second, localities can look to increased use of the private sector for transit through contracting out service and maintenance. Areas have saved 20 to 60 percent of operating costs when contracting service. Third, our proposal to expand the definition of associated capital maintenance items to include all tires, materials and supplies (except fuel) should give added flexibility in use of Federal capital assistance and ensure that maintenance is not neglected. If these measures are taken, reductions in service and other adverse impacts can be avoided.

SENATOR ANDREWS: One of the arguments traditionally used in opposition to Federal operating assistance is that it dampens any incentives to improve efficiency in transit operations. What assurances are there that transit services will be operated efficiently in small and rural areas under the terms of your proposed legislation?

ANSWER: Transit service already is operated more efficiently in the smaller areas with average operating costs well below those in the larger areas. For example, in 1984, bus only areas over 1 million population had an average operating cost per vehicle hour of $55.60, compared with only $29.87 in areas under 200,000 population. Also, operating costs per hour have risen much more quickly in the larger areas, rising 17 percent in real terms between 1980 and 1984 in the bus-only areas over 1 million population, compared with only a 6 percent increase in the areas under 200,000 population.

SENATOR ANDREWS: Have you provided technical or management assistance to large cities as a means to improve the efficiency of their operations?

ANSWER: Yes, technical and management assistance has been provided to a number of large cities. The following are some specific projects.

The AC Propulsion project being tested at the New York City Transit Authority (NYCTA) on two of their transit cars is expected to save both maintenance costs and energy costs. Our estimated life cycle cost savings for this propulsion technology is $10,000/car/year over conventional cam controlled DC propulsion systems now being operated in New York. Similar savings are expected at other transit authorities in the U.S.

The Rail Transit Energy Management Program has developed a set of Energy Management Guidelines that address cost control strategies for reducing energy expenditures at rail transit systems. Five transit authorities are now implementing the cost control strategies and expect to save $10 million/year beginning 1986.

The Rail Transit project which is directed at assuring compatibility between power and signal systems has saved the industry some $10 million per year over the last 5 years. With the completion of a training session planned this year to both transit operators and consultants it is expected that these savings will continue in the future as techniques to assure electro magnetic compatibility in electrical and electronic components are better understood by the entire industry.

UMTA has provided training to transit operators that will allow them to make decisions on the merits of new energy saving equipment and operating techniques. The training course will be given yearly by Carnegie Mellon University.

In the area of management information systems, UMTA initiated and funds a very active microcomputer user support center at a major university. The following reports have been distributed:

Review of Accounting Software for Transit
Description of Transit Maintenance Management Information Systems
Microcomputer Software and Source Book
Paratransit Applications of Commercial Microcomputer Software

done by the Federal City Council. Other similar financial studies are proposed for Miami and other areas having or contemplating major transit investments.

The Office of Technical Assistance receives numerous requests for technical and management assistance. These are satisfied in various ways: 1. Via telephone, 2. By mailing of technical assistance literature e.g. studies, evaluation reports. 3. By linking up the questioner with knowledgeable peers under the Private/Public Transportation Network. Many cities, large and small, were recipients of such aid. A partial list included New York, Dallas, Denver and Los Angeles.

The Office of Technical Assistance provides technical and managerial assistance to the transit industry in the form of grants and cooperative agreements. These forms of assistance benefit the recipient specifically and the results of the projects are then distributed throughout the industry. Over the years, many large cities have participated in this form of assistance. In the managerial area grants have been provided to Miami, Philadelphia, New York and Houston in the last 2 years for the purpose of increasing performance and productivity.

PRIVATIZATION

SENATOR ANDREWS: In the Federal Register of January 24, 1986, The Department published its "Guidance on Documentation of Private Enterprise Participation in Urban Mass Transportation Programs." That notice provides interim guidance for documentation of private sector participation. Given the stated Administration policy to leave transit decisions in the hands of local authorities. Why is the Urban Mass Transportation Administration (UMTA) requiring this documentation?

ANSWER: It has been a continuing requirement of UMTA to make findings with respect to private sector participation before any UMTA grant can be approved. The guidelines are provided to help grantees better focus their response so that lengthy reports can be avoided.

SENATOR ANDREWS: Has the Department estimated the time impact that such documentation imposes? If not, why not? If so, what does the Department believe is sufficient documentation?

ANSWER: The documentation is intended to be minimal. It was purposefully designed to be short, to avoid unnecessary lengthy replies and to decrease the paperwork that might otherwise be submitted.

A brief narrative description of local procedures, actions taken and future intentions is all that is necessary. We are not requesting a detailed study or analysis.

SENATOR ANDREWS: Is the Department intending to propose quotas or percentages that by regulation require a certain level of privatization?

ANSWER: UMTA does not intend to propose any regulation that will require a certain level of privatization by quotas or by percentage.

SENATOR ANDREWS: Does the Department foresee their review of this documentation resulting in a delay in the release of formula funds or discretionary funds?

ANSWER: We do not intend to delay grants. We do, however, expect grantees to provide adequate documentation of their efforts to comply with the private enterprise requirements of the UMT Act. In just a few pages, the grantee can tell UMTA about past and present involvement of the private sector in local transit provision, as well as how it will include the private sector in its plans for the future. The documentation can easily be incorporated into grantee's routine transit planning procedures.

SENATOR ANDREWS: UMTA made a decision to apply the privatization initiative to the rural and specialized systems as well as those in urbanized areas. Research which is so often cited on the savings to be expected from increased contracting with private operators is based on experience in major urban centers. The committee understands that for systems operating 100 vehicles or less, there were no significant savings to be expected in contracting out services. Do you have other research that contradicts that? Do you have research findings that support the conclusion that the cost-benefits to be expected from applying the new contracting requirements to the small rural and specialized operators will be worth the additional regulatory burden to which they are being subjected?

ANSWER: A study by Dr. Roger Teal of the University of California shows that, on average, small transit authorities (25 to 50 buses) could enjoy savings of up to 18 percent by contracting out services to private operators. Substituting privately provided demand-responsive transit for regular fixed route service is particularly appropriate for smaller communities, and can yield savings of over 50 percent.

UMTA does not intend its private sector policies to be burdensome for non-urbanized and small providers, but rather to ensure that they examine all of their options for saving money. If private operatorsare not cost-effective, then there is no obligation to contract service. Private providers can be a valuable resource for non-profit organizations who often lack the expertise to provide transit services efficiently.

RESEARCH AND DEVELOPMENT

SENATOR ANDREWS: UMTA is presently redirecting its Research and Development (R&D) efforts. Could you tell the Committee why?

ANSWER: The Office of Technical Assistance which conducts the research and development program within UMTA has redirected its efforts to more fully respond to the priorities of the Reagan Administration, to relieve pressures due to reduction in operating assistance, to assist in responsibly executing the UMTA investment programs and to assure public safety on transit. The restructured program will provide examples, guidance and technical assistance in the areas of safety and security; private sector initiations; energy efficiency; maximizing revenues; project planning, management and implementation; labor productivity; maintenance management; and, information sharing.

SENATOR ANDREWS: What types of work products will the R&D effort produce versus what it had done in the past?

ANSWER: The newly restructured program of the Office of Technical Assistance will focus on information dissemination and technical assistance to transit operators, state and local governments and to those in the private sector involved in transportation. Products will be primarily reports in subject areas such as innovative financing arrangements, best practices in project management, crime prevention and other safety issues on transit, energy issues, labor productivity issues, best practices in maintenance, private provision of transit services and so forth.

SENATOR ANDREWS: How much of the New R&D effort (in dollars and personnel) will be directed at privatization?

ANSWER: The proposed obligations in the Office of Technical Assistance for privatization activities for FY 1986 and FY 1987 is $6.5 million. Personnel to approximately five persons will be required to carry out these activities. The proposed obligations in the Office of Budget and Policy for privatization activities for FY 1986 and FY 1987 is $5 million. Approximately, four people will be required to carry out these activities.

SENATOR ANDREWS: What products or activities are expected in the Privatization area?

ANSWER: The end goal of our thrust to encourage competition is the elimination of considerable waste by turning to competitively provided service that is lower in cost and often superior in quality. Local public transit decisionmakers, however, retain the final decision-making authority to choose the type of service and the provider best suited for meeting local needs.

The Privatization program will work in several areas to increase the involvement of the private sector in public transportation. Projects have already been approved to establish private sector coordination offices at State Departments of Transportation, to establish public/private organizations at the local level to improve public transportation and to increase the use of volunteers to improve mobility particularly in low density and rural areas. A major technical assistance effort, the Private/Public Transportation Network, has been started to disseminate information on private sector options and secure adoption of innovative private sector projects.

Planned projects will emphasize competition and contracting of transit services and maintenance. These projects will be models demonstrating the cost and service benefits of using the private sector and creating a competitive environment in the transit industry. Other products include assessments of the potential for private sector involvement and cost allocation methods to determine a fair means of comparing public and private sector operating costs.

These projects will provide input to guideline manuals and planning documents which can be used by others to replicate the demonstration experience. We anticipate that the major output of the program will be a significant cost saving to the taxpayer for providing mass transit service.

SENATOR ANDREWS: How will this effort coordinate with the Office of Privatization in the Policy Office?

ANSWER: The efforts of the Office of Private Sector Initiatives and the Office of Technical Assistance are fully coordinated. The Office of Private Sector Initiatives reviews all UMTA program plans that include private sector projects. Periodic meetings are held between the two offices to review progress on their respective projects.

There is no overlap of effort since the Office of Private Sector Initiatives deals mainly with policy research while the Office of Technical Assistance addresses service, management and institutional issues.

SENATOR ANDREWS: How much effort (Dollars and Personnel) are now expended in the Service and Methods area and how much will be under this new direction?

ANSWER: The entire UMTA Section 6 program has been reoriented to reflect the changing needs of the transit industry and new policy directions. Research and Development activities are described in a set of Lead Programs and the prior designations such as Service and Methods are no longer identifiable. Most of the research on topics included under the Service and Methods program had been completed and the techniques developed by Service and Methods are now considered standard practice. The termination of the Service and Methods designation indicates completion of a highly successful and effective effort as new areas are pursued.

SMALL URBAN & RURAL (SECTION 18)

SENATOR ANDREWS: Under current law, the Section 18, small urban and rural program is a percentage (2.93) of the total Section 9 program. Do you favor this method for deriving a Section 18 program level.

ANSWER: The Administration has not proposed any change in the percentage as base level for the Section 18 program. However, under the Administration's proposal States could make additional funds available to these areas should the need be justified.

SENATOR ANDREWS: Do you believe or could you support a separately established Section 18 level, i.e., one not dependent on the overall Section 9 level? If not, why not?

ANSWER: The Administration is willing to consider setting the funding level of Section 18 independently of the Section 9 funding level. A "hold harmless" provision, which would maintain Section 18 at approximately current funding levels, may be an approach to explore. The services provided by rural operators are fundamentally different from the transit services provided by urban transit operators. Unlike the large urban operators who carry a significant number of commuters who have other transportation options, rural operators serve almost exclusively those without access to other means of transportation. Many of the trips provided are for medical care, shopping and social contact. This differnce between rural and urban transit functions suggests the merit of considering seperately determined funding decisions for the two programs.

SENATOR ANDREWS: Often the small urban and rural areas that participate in the Section 18 program are more dependent on Federal assistance than the larger cities that have a greater number of funding sources. Do you believe that Section 18 recipients should be restricted in the use of their grant funds? If so, why? If not, why not?

ANSWER: The Administration has proposed that Section 18 grant recipients continue to have ability to use those funds for capital or operating assistance as they see fit. Section 18 recipients have among the lowest operating costs of any group of transit providers. Indeed, in many cases, volunteers provide services. Given the ability of Section 18 operators to control their costs, the Administration supports continued eligibility of Section 18 grants for operating assistance.

ELDERLY AND HANDICAPPED (SECTION 16(b)(2))

SENATOR ANDREWS: Last year this Committee made a point of increasing funds for the Section 16(b)(2), elderly and handicapped program, from $25 million in 1985 to $35 million in the Committee's reported level. Do you think this is a good way to go? If not, why not?

ANSWER: In our budget and legislative proposals for FY 1987, we requested $35 million for the Section 16(b)(2) program, while all other program levels are cut significantly. We believe this is indicative of our support for this important and worthwhile program.

SENATOR ANDREWS: On an annual basis, how much in grant requests does UMTA receive for this activity?

ANSWER: Each State receives request for funding directly from private nonprofit organizations. The program of projects that the State then forwards to UMTA for funding approval contains only those projects which the State has recommended for funding based on the State's selection criteria and the number of projects that can be accommodated within the State's annual apportionment. Thus, UMTA has no records of those organizations which applied to the States but which were not selected for funding. However, States tell us that requests for funding exceed the ammount of funds available and that each year a significant proportion of applicants are denied funding.

SENATOR ANDREWS: Has UMTA been able to fund all previous requests in this area?

ANSWER: As mentioned above, the amount of requests exceed current levels of funding for the Section 16(b)(2) program. Therefore, those nonprofit organizations that were not approved for funding during a current fiscal year could receive funding in a subsequent fiscal year.

SENATOR ANDREWS: For what types of activities or purchases has this money been used?

ANSWER: Private nonprofit agency recipients received funding for specially equipped vehicles to provide transportation for elderly and handicapped persons. Grants also provided for the purchase of ancillary two-way radio equipment.

PLANNING FUNDS

SENATOR ANDREWS: Planning funds are presently (under current law) authorized at not less than $50 million, as part of the Section 3 discretionary grant program. Do you support this "not less than" provision? If so, why? If not, why not?

ANSWER: We believe that, under the current law, a program level of $50 million for planning was appropriate and that a minimum amount was reasonable given the importance of planning in developing cost-effective projects, in ensuring the efficiency of transit operations, and in creating the environment for necessary policy change.

Our legislative proposal sets a minimum floor of 2.5 percent of the total program level, or $30.5 million. While the absolute figure is lower it represents a large percentage of the entire UMTA resources, again reflecting the importance we place on ensuring that the planning process can act to develop and prioritize projects for scarce funding and to work to improve transit operations.

SENATOR ANDREWS: How is this $50 million presently allocated? To whom, by whom, using what criteria?

ANSWER: The Section 8 program, as a discretionary program, does not have a legislative apportionment requirement. In order to achieve equity in the distribution of the program resources, however, we have administratively apportioned these resources to Metropolitan Planning Organizations and States for several years. The translation of the overall Metropolitan Planning Organizations and State allocations into specific marks is done in Headquarters by administrative formula based upon population. This method is intended to allocate a greater portion of Section 8 funds to larger areas due to the increased complexity of planning for transportation in larger areas. The State formula distribution uses individual State population as a percentage of total national population to obtain a linea distribution of funds. A minimum allocation is provided in cases where the distribution results in too small an amount of funds for either an Metropolitan Planning Organization (MPO) or State to effectively utilize. Upward adjustments to the MPO and/or State marks may be made for the funding of supplemental activities from Headquarters retained Special Studies and/or Contingency accounts.

SENATOR ANDREWS: How and by whom are these funds generally used?

ANSWER: These funds are used by the Metropolitan Planning Organizations and States to conduct planning activities related to the operation of mass transportation services. The planning process is intended to provide transit operators and State and local governments with sufficient information to make sound cost-effective capital investment decisions in the provision of mass transit services to the public. This planning process is mandated by Congress in Section 8 of the Urban Mass Transportation Act of 1964, as amended. Approximately 10 percent of the funds are set aside annually to support innovative planning studies at the Administrator's discretion. These funds are made available to Metropolitan Planning Organizations, states, and consultants for special studies on topics such as transit service for the elderly and handicapped, evaluation of completed major capital investments, and the provision or financing of transit by the private sector.

SENATOR ANDREWS: What are the Major Accomplishments of the Planning Effort? Please Elaborate, Provide Examples.

ANSWER: A major accomplishment of the Section 8 Program has been to support planning activities that ensure that capital resources are used to fund the most cost effective projects possible. One of the primary products of the Section 8 Planning Program is the Transportation Improvement Program (TIP). This document serves as the program of projects required by the UMT Act as the basis for a capital grant. A few examples of planning activities that support this objective are:

- evaluation of transit route deletions and additions, schedules, fare structures and labor contracts.
- preparation of financing plans to cover operating deficits.
- development of improved management practices for transit operators.
- evaluation of the preferential use of highway networks by transit vehicles and carpools to achieve the efficient movement of people with the least cost.
- planning and implementation of ridesharing programs.

The Planning Program has also captured attention to current administration goals such as encouraging private sector involvement in the financing and provision of transit services; advancing disadvantaged business enterprise; and encouraging UMTA program coordination with other Federal programs. The Section 8 planning program also facilitates local decision making by supporting technical analyses which assist state and local officials in prioritizing local transportation projects.

It is difficult to provide a complete answer in terms of overall capital and operating cost savings realized as a result of planning outlays; however, based on the results of a report prepared by the COMSIS Corporation, which analyzed 21 case studies, we have saved about $6 billion. This independent evaluation also indicates that alternatives analysis does not fuel the pipeline for fixed guideway projects but deflects a large number of proposed projects which are found not to be cost effective. Although we do not track the elimination of projects in TIPs, we would expect similar reductions to occur in the capital pipeline as a result of detailed planning analyses.

SENATOR ANDREWS: Has this planning effort resulted in better service, more rationalized service, more cost-effective delivery or better assigned long range needs for transit?

ANSWER: We can point to many examples of improved public mobility at reduced costs as a result of transportation planning efforts. Transportation Systems Management planning alone has resulted in significant savings in travel time, fuel consumption, accident costs, and reduced air pollution at scores of sites around the nation. Projects such as the Shirley Highway Reversible HOV Lanes, the Sacramento County Signal Preemption for Buses, and the Washington, D.C., Metro Silver Spring Transfer Station, were all conceived and planned as part of the ongoing transportation planning effort supported by Section 8 funds. These projects are illustrative of the improvements made in transportation service as a result of the planning effort. Just as important as these successfully implemented projects, are those proposals which have not been implemented because they have been analyzed as part of the planning effort and found to be non-cost-effective and, therefore, deleted from further consideration.

An independent report entitled "The Cost-Effectiveness (Savings) of Alternatives Analysis" completed in March 1985, documents cost-savings of over $6,000,000,000 dollars for only 21 planned projects around the nation. In most cases, local officials decided to either reduce the planned capital expenditure or terminate any further consideration because the original proposals were found to be non-cost-effective. For example, planned projects were deleted in Dayton, Ohio; El Paso, Texas; Harrisburg, Pennsylvania; and Memphis, Tennessee. In these four cities alone, the cost savings are estimated to be $592.8 million - the equivalent of over 10 years of total Section 8 program funding expenditures nationwide!

SENATOR ANDREWS: Is this planning more cost-effective than having the local authorities fund this activity?

ANSWER: We believe that the planning program, as now constituted, has been most cost-effective. By providing this funding separately, we can assure a level of objectivity as local communities face some of the financial challenges of the future. We have been able to target planning funds at a variety of important areas of national emphasis. For example, we have made an enhanced role for competition and the private sector one of our current emphasis areas. The planning program represents an important means of beginning the process of innovation in many areas. The existance of the separate planning program allows this to occur in a way not possible if local areas were funding only a minimal planning effort.

SENATOR ANDREWS: Are there restrictions on the use of planning money? If so, what?

ANSWER: Under law, these funds can be used for planning, engineering, designing, and evaluation of public transportation projects, and for other technical studies. Any grant request for funds related to these purposes may be approved subject to availability of funds.

SENATOR ANDREWS: What direction is provided by UMTA on the use of this money? How is direction provided?

ANSWER: UMTA, in cooperation with the Federal Highway Administration, has issued the joint Urban Transportation Planning Regulations, last amended in June, 1983, which provide direction to the planning effort. These regulations provide States and local governments maximum flexibility in administering the planning process and associated Federal funds. Both the Federal Highway Administration and UMTA also continue to provide technical assistance and to advance good planning and programming practices through formalized training courses and on-site visits by Headquarters and Regional Office staff. We have also issued additional guidance to grantees such as UMTA Circular 8100.1A on "Program Guidance and Application Instructions for Planning and Technical Studies Grants", updated on August 30, 1985, and developed "National Emphasis Areas for Metropolitan Planning Organization and State Program Elements" which we update and issue annually. Lastly, we provide fiscal support to the Office of the Secretary's Technology Sharing Program under which innovative special study reports are widely disseminated to metropolitan planning organizations, states, and transit operators.

SENATOR ANDREWS: Has UMTA done any assessment on the use/effectiveness of these funds? If so, when, what type of assessment? What were the findings? If not, why not?

ANSWER: UMTA assesses annually the use of planning money at the local level through a quantitative analysis of expenditures. Section 8 and Section 9 planning expenditures are reported by technical activity area for input into the UMTA Management Information System. To date, Fiscal Years 1984 and 1985 have been analyzed.

These technical activity areas reflect the state and local attention given to Federal policy objectives which are based in UMTA's statute, such as planning for; (1) elderly and handicapped transit service, and (2) the provision or financing of transit by the private sector. We have found that there has been a reasonable local response to Federal policy objectives, e.g. elderly and handicapped planning expenditures at a stable 3 percent and private sector provision or financing of transit increasing from 1.0 percent in Fiscal Year 1984 to 3.7 percent in Fiscal Year 1985.

Another objective of the planning program, which is not susceptible to objective quantitative assessment but which we feel is being achieved, is reducing Federal intrusion in state and local decision making. The Section 8 program helps develop the technical planning information state and local officials need to produce local Transportation Improvement Programs which according to Section 8(c) control the expenditure of Federal capital and operating expenditures.

UMTA had completed in March of 1985 an independent report (prepared by the COMSIS Corporation) to determine overall Federal capital and operating cost savings realized as a result of planning outlays for major capital investments (proposed New Starts). The report analyzed 21 corridors and found that $6 billion of proposed fixed guideway investments have been locally eliminated for Federal funding. This figure is 300 times the total of approximately $20 million that has been invested in major capital planning studies in these cities. Although we have not conducted a formal evaluation, we believe that similar savings are being realized in the local planning and decision making process for the bus acquisition and rail modernization.

SENATOR ANDREWS: Does the planning program have a better cost/benefit ratio than other UMTA programs? If so, which ones? Please elaborate.

ANSWER: Because the planning program is used to develop projects and set priorities for the other programs, it is extremely important in ensuring that UMTA program funds are well spent. For example, use of planning funds in the alternatives analysis process has resulted in the rethinking or scaling down of a large number of new starts projects involving billions of dollars. Planning funds have also resulted in savings of operating funds through use on service restructuring studies designed to identify unneeded routes and services while still providing a maximum level of service to users of those services which were cost-effective. Such studies and development of local process to provide for greater use of private sector opportunities have and will continue to reduce the cost of providing vitally needed transit services and for providing alternate means of financing capital projects.

SENATOR ANDREWS: Has UMTA used these funds for research purposes, survey purposes, or for producing workshops? If so, please describe the uses and list products of the effort.

ANSWER: UMTA has funded through the Section 8 Technical Studies Program research, survey, and workshop projects. Some of the projects funded are noted below:

1. RESEARCH PURPOSE

   a. Project No. IT-09-9018 (FY 1985 and 1986) $150,000. The study is defining the state of the practice in Maintenance Garage Planning (needs and design requirements).

      Anticipated Product: Garage Planning Manual and an Interim Report on State of the Practice.

   b. Project No. MI-08-7002 (FY 1985) $200,000. A study to determine how accounting procedures may be simplified for specialized transportation.

      Anticipated Product: Recommendations on accounting procedures.

   c. Project No. IT-09-9021 (FY 1981-84) $2,000,000. A study of Rail Modernization needs of existing systems requested by the Senate in its report on the FY 1980 DOT Appropriations Act.

      Anticipated Product: A Report on cost-effective rehabilitation needs of existing rail systems to be used for policy development and budgets.

   d. Project No. DC-09-7009 (FY 1983) $228,000. A study of data compiled by the U.S. Census in the Census of Population 1979-80 in its Journey to Work section.

      Product: A two volume report on Demographic and Travel Trends used for UMTA policy development.

   e. Project No. DC-09-9058 (FY 1983) $7,500. Formulation and implementation of a Special Assessment District to help fund the Miami Downtown Component of Metrorail from private sources.

      Product: Report published and disseminated through DOT's Technology Sharing Program in the Office of the Secretary. The information in this report is utilized in a joint FHWA/UMTA training course for planning professionals at the local MPO level.

2. WORKSHOP PURPOSE

   a. Project No. DC-08-7013 (FY 1986) $15,000. Meeting with transit operators and transit industry representatives to discuss current Rail Vehicle Requirements contained in Section 9.

Proposed Product: Modify, if necessary, current UMTA guidance on Rail Vehicle Requirements.

b. Project No. DC-09-9066 (FY 1984) $40,000. Third International Conference on Mobility and Transport for the Elderly and Handicapped.

Product: Exchange information among countries providing these services.

c. Project No. DC-09-9059 (FY 1983) $24,400. A series of training workshops sponsored by UMTA/FHWA/ National Association of Regional Councils/American Association of State Highways and Transportation Officials dealing with implementation by Metropolitan Planning Organizations of revised Planning Regulations and the Surface Transportation Assistance Act of 1982.

Product: Local planning professional training of Federal requirements.

3. Survey-Type Purpose

a. Project No. MA-08-9016 (FY 1986) $50,000. Canvass through state rural transit co-ordinators the extent and type of liability insurance problems being encountered by rural transit operators.

Product: Information acquired utilized for internal UMTA recommendations for subsequent follow-up research effort. Hotline established to aid rural transit operators on a temporary basis.

b. Project No. VA-09-9007 (FY 1983), $10,000. A survey of bus spare vehicle ratios done on a selected sampling basis.

Product: Information gathered utilized for grantee guidance of Spare Vehicle Ratios in UMTA's Section 9 Circular 9030.1.

INTERSTATE TRANSFER TRANSIT PROJECTS

SENATOR ANDREWS: Under current law, substitute transit projects are funded from the General Fund and substitute highway projects are funded from the Highway Trust Fund at a combined FY 1986 level of $925 million. The Administration's bill proposes to eliminate the separate authorization for substitute transit projects and provide funding for both substitute highway and transit projects from the Highway Account of the Highway Trust Fund. The bill authorizes the combined substitute program at $500 million per year through FY 1990. In view of the Administration's commitment to a block grant, why retain a separate Interstate substitute program?

ANSWER: The Interstate Substitute program is a closed program in that only States and areas which withdraw and substitute other projects for Interstate highway segments are involved. Also, the total amount of funds to which a specific area is entitled is based on the cost to complete of the withdrawn Interstate segment. There is, thus, a commitment on the part of the Federal Government to fund these projects consistent with the funding of the withdrawn Interstate segment. In order to do so, a separate program was established to liquidate these commitments, just as the Interstate Construction program liquidates commitments to complete the remainder of the Interstate system.

However, once the funds are allocated on this basis, there is no reason why the funds could not be added to an area's Block Grant amount and have the provisions of the Block Grant program apply to them. In this way the local officials could program their mobility needs against the entire Federal resource available.

SENATOR ANDREWS: Why should substitute transit projects not be financed for the Mass Transit Trust Fund?

ANSWER: All substitute projects should be financed from the Highway Account of the Highway Trust Fund since they replace Interstate projects originally to be financed from that account. Otherwise, Federal funds for the withdrawn Interstate segment revert to the Highway Account and a new entitlement of funds is created for the substitute project.

SENATOR ANDREWS: When would transit substitute projects be complete at the funding level you are proposing?

ANSWER: With the addition of the New York Westway project and our proposed funding level of $500 million per year it is anticipated that all substitute projects would be completed in 1998. The actual completion date of a particular transit or highway substitute project would depend on local project funding schedules.

SENATOR ANDREWS: Provide for the record an analysis of the remaining cost-to-complete of Interstate Transfer Transit projects.

ANSWER: The following table analyzes the remaining cost-to-complete of Interstate Transfer Program for both highway and transit projects by state and withdrawal area.

ESTIMATED POST FY 1986 COST TO COMPLETE SUBSTITUTE HIGHWAY AND TRANSIT PROJECTS

STATE	WITHDRAWAL AREA	ESTIMATED ADDITIONAL FUNDS REQUIRED TO COMPLETE SUBSTITUTE HIGHWAY PROJECTS	ESTIMATED ADDITIONAL FUNDS REQUIRED TO COMPLETE SUBSTITUTE TRANSIT PROJECTS	ESTIMATED ADDITIONAL FUNDS REQUIRED TO COMPLETE SUBSTITUTE HIGHWAY AND TRANSIT PROJECTS
ARIZONA	Tucson	1,106,051	0	1,106,051
CALIFORNIA	Sacramento	0	3,231,517	3,231,517
	San Francisco	19,873,506	59,595,386	79,468,892
COLORADO	Denver	41,234,133	0	41,234,133
CONNECTICUT	Bolton to Killingly	327,378,733	259,900	327,638,633
	Hartford-New Britain	330,500,639	13,353,660	343,854,299
DIST. OF COLUMBIA	Washington	92,559,271	4,148,095	96,707,366
GEORGIA	Atlanta	68,053,813	0	68,053,813
ILLINOIS	Chicago	492,063,961	313,628,397	805,692,358
INDIANA	Indianapolis	31,417,529	1,049,623	32,467,152
IOWA	Waterloo	182,409,454	9,406,077	191,815,532
MARYLAND	Baltimore	413,921,997	194,671,946	608,593,943
	Bowie to Millersville	61,785,157	0	61,785,157
	Washington	5,517,975	0	5,517,975
MASSACHUSETTS	Boston	61,489,111	28,456,267	89,945,378
	Fall River to Providence	7,583,013	679,091	8,262,104
MINNESOTA	Duluth	9,535,370	1,688,106	11,223,476
	Minneapolis-St. Paul	13,931,951	0	13,931,951
NEBRASKA	Omaha	14,146,509	0	14,146,509
NEW JERSEY	New York City	24,366,505	0	24,366,505
	New York City to Trenton	163,044,926	1,012,114	164,057,040
	Philadelphia	35,191,536	789,840	35,981,376
NEW YORK	Albany	1,136,547	1,146,084	2,282,631
	New York City	1,447,816,068	349,704,645	1,797,520,713
OHIO	Cleveland	80,994,475	16,659,390	97,653,865
OREGON	Portland	67,159,181	7,702,699	74,861,880
	Salem	7,505,609	0	7,505,609
PENNSYLVANIA	Philadelphia	33,333,556	0	33,333,556
	Pittsburgh	38,313,815	0	38,313,815
RHODE ISLAND	Rhode Island	428,612,866	26,964,271	455,577,137
TENNESSEE	Memphis	163,968,089	19,213,083	183,181,172
VIRGINIA	Washington	10,271,680	0	10,271,680
	TOTALS	4,677,823,988	1,053,200,111	5,730,384,099

SENATOR ANDREWS: What guidelines would you offer for the allocation of discretionary funding under this program? Should the split between highway and transit allocations be equivalent to the split between remaining highway/transit costs? Why, or why not?

ANSWER: We believe that two factors should guide the allocation of the discretionary Interstate Substitution funding: first, the readiness of the areas to use the funds to finish projects and, only secondarily, the cost-to-complete the various cities' projects, whether highway or transit. In this way projects can be completed based on efficient construction schedules rather than the pace allowed by the formula funding. Too much money is being made available to areas not ready to proceed, money which will not be drawn down for some time, while other projects are being delayed and ending up costing more because of stretched out schedules.

ADMINISTRATIVE EXPENSES

SENATOR ANDREWS: The object classification for administrative expenses on page 14 of your budget justification shows that $3,404,000 was obligated for "Other Services" in FY 1985. What activities are included under the category "Other Services?"

ANSWER: The activities which are included under the "other services" category in the FY 1985 Administrative Expenses budget are:

Administrative Contracts
Employee Training
Administrative Services (OST Working Capital Fund)
Security Investigations
Office Machines/Repair
Space Rearrangements
Administrative Services (other)
Storage of Household Goods
ADP Services (OST Working Capital Fund)
ADP Contract Support Services
Other Contractual Services

SENATOR ANDREWS: Last year's budget justification estimated that $4,205,000 would be obligated for "Other Services" in 1985. What services were not provided in 1985 that you had anticipated last year?

ANSWER: The major differences between the actual 1985 other services expenses and 1985 budget estimates are in ADP Services ($87 thousand), ADP Contract Services ($446 thousand), and Other Contractual Services ($88 thousand). These differences are due to slower than anticipated development and obligation of funds of the UMTA Grants Management Information System. Funding for the GMIS activity has been provided in the FY 1986 UMTA Administrative Expenses budget.

SENATOR ANDREWS: You estimate that $4,620,000 will be obligated for "Other Services" in 1986. Why such a large increase from 1985? What additional services are being provided?

ANSWER: As shown in the Budget prior to implementing the Gramm-Rudman reductions, "Other Services" was projected to increase from $3,404 thousand in FY 1985 to $4,620 in FY 1986. This would represent an increase of $1,216 thousand. Since the budget was submitted to Congress, $230 thousand of the overall increase has been redistributed to meet salary and benefits costs. Of the remaining increase, $418 thousand is attributable to developmental costs of Phase I of the new Grants Management Information System and $568 thousand results from such items as projected increased payments to the Departmental Working Capital Fund, EEO investigations, grantee certification reviews, and office machine and personal computer repairs.

SENATOR ANDREWS: The object classification for administrative expenses shows obligations of $1,255,000 for equipment in 1985 and a pre-sequester level of $554,000 in 1986. This amount was further reduced to $204,000 in 1986 by Gramm-Rudman-Hollings. Why was there such a large reduction in this category?

ANSWER: Completion of the office automation equipment purchase was deferred in order to provide funding requirements for salaries and benefits of on-board employees.

SENATOR ANDREWS: The 1987 administrative expenses budget request of $26.8 million assumes a reduction of 153 full-time permanent positions and 101 full-time equivalent employment.

The Senate-passed budget resolution assumes continuation of all existing programs at current levels except for a 20 percent reduction in operating assistance. If this were to become law, how much of an increase in the administrative expenses request do you estimate would be necessary? How would you adjust your personnel request under this scenario?

ANSWER: In FY 1987, $32,114 thousand would be required for Administrative Expenses assuming an FTE of 455 compared to a currently projected end-of-year 480 FTE in FY 1986. This current projection represents a decrease of 25 FTE or 40 full-time permanent positions in FY 1987. The projected funding level would include increases of $655 thousand in rent as estimated by GSA, $750 thousand for relocation of about 10 personnel, $256 thousand for inflation, $653 thousand for within-grade pay raises and Merit Pay awards, and $310 thousand for the final purchase of Office Automation equipment (previously planned for FY 1986, but delayed to Gramm-Rudman reductions). These increases would be partially offset by a decrease of $87 thousand for staffing adjustments and implementation of the new Financial Management System. Costs of involuntary separations of employees will essentially be offset by the savings in salaries and benefits costs.

SENATOR ANDREWS: Your justification states that the personnel reduction is being phased in now to permit a more orderly transition to a substantially reduced organizational structure in later years. Under the conditions of your legislative proposal, what level of personnel would you anticipate for each of the next three years?

ANSWER: The following chart provides UMTA's estimated full-time equivalent (FTE) and authorized full-time permanent positions for Fiscal Years (FY) 1987-1989.

	FY 1987	FY 1988	FY 1989
FTE	389	300	300
Authorized Positions	343	300	300

SENATOR ANDREWS: Under the terms of the Senate-passed budget resolution what level of personnel would you anticipate for each of the next three years?

ANSWER: Assuming that the program structure remains essentially the same as it is in FY 1986, UMTA would require approximately 455 Full-Time Equivalent workyears to administer the programs in FY 1987. Staffing levels in FY 1988 and 1989 could possibly be slightly lower due to implementation of management efficiencies, and any reductions in staffing in those years would be done through normal attrition.

SENATOR ANDREWS: Given that your 1987 budget request assumes a 31 percent reduction in full-time permanent positions, why is there an increase from $1,586,000 to $1,618,000 in the UMTA contribution to the DOT Working Capital Fund?

ANSWER: The $30,000 increase in the $1,618,000 amount budgeted as the UMTA payment to the DOT Working Capital Fund is associated with increased computer usage following implementation of the fully operational Financial Management System (FMS) and Phase I testing activities of the Grants Management Information System (GMIS). These activities are not sensitive to staffing level changes, and may in fact reflect higher funding requirements in later years to offset loss in staffing.

SENATOR ANDREWS: Your Standard Level User Charges (SLUC) decrease by about 36 percent in 1987 at the same time as full-time permanent positions decrease by about 31 percent. However, the Office of the Secretary reports a 52 percent increase in the General Services Administration's SLUC rate for space rental in the Nassif building. Why is this increase not reflected in UMTA's 1987 budget request?

ANSWER: UMTA's FY 1987 SLUC level was limited by the OMB Passback. The OMB Passback did not include any supporting rationale in justification for the estimate.

SENATOR ANDREWS: If UMTA is required to absorb an increase in SLUC for 1987. Where would you propose to take reductions? If reductions in other administrative areas are not proposed, how would you absorb such increased costs?

ANSWER: If UMTA is required to absorb an increase in SLUC for Fiscal Year 1987, reductions in obligations would have to occur in Office Automation related employee training and a further deferral of spending for the remaining phase of the Office Automation hardware purchase.

RURAL PLANNING

SENATOR ANDREWS: The National Association for Transportation Alternatives (NASTA) has pointed out that practically all of the UMTA administered planning assistance is earmarked for larger, urbanized areas, and very little planning assistance is available to smaller communities in nonurbanized areas, even though they have equally important local planning needs. Would you support a legislative initiative to increase the level of planning assistance available to nonurbanized areas.

ANSWER: We believe it is inappropriate to burden smaller areas with complex planning requirements more appropriate to larger areas. Accordingly, we have simplified planning requirements in areas under 200,000 and have proposed eliminating these requirements altogether in our legislative proposal. Consequently, we believe that the level of planning assistance available to nonurbanized areas is adequate. Ten percent of the Section 8 planning program is made available to the States for the purpose of Statewide planning and planning in nonurbanized areas. Since one of the main purposes of the planning program is to ensure better local decisionmaking on use of the other programs, considering that about 2 percent of all UMTA funds go to nonurbanized areas, the allocation of Section 8 funds should be more then adequate.

In addition, up to 15 percent of the Section 18 funds may be used for State administration and planning. This provides an additional resource for planning for transit in nonurbanized areas.

SENATOR ANDREWS: Since major cities already have large planning staffs and budgets, NASTA argues that at least

40 percent of UMTA's Section 8 planning funds should be earmarked for nonurbanized areas. How would you propose to make distribution of these funds more equitable?

ANSWER: We believe the distribution of funds is already equitable when compared with transit activities and the size of the transit programs. At the present time, approximately $40 million of Section 8 funding goes to urbanized areas which receive over $3 billion in Federal transit assistance; States receive about $5 million in planning funds and receive just over $100 million in funds for nonurbanized areas. Furthermore, the total volume of the transit activity (Federal, State and local) is far greater in the large urbanized areas than the rural areas. This skews the ratios even further. Also, the States can use up to 15 percent of their Section 18 funds for planning activities.

RURAL TRANSPORTATION

SENATOR ANDREWS: The first biennial report on public transportaiton under Section 310 did not include coverage of rural areas. What plans do your have to assure that the rural data base is kept up to date and further developed so that both we and you can have more information on this sector of the industry in the future?

ANSWER: At the time the 1984 status report was prepared for submission to Congress, detailed information about the Nation's rural and specialized transportation systems was not available. Since that time, UMTA has sponsored the preparation of a "National Rural Specialized Transportation Directory" which will identify the more than 5,000 Sections 18 and 16(b)(2) operators. The directory is expected to be published late this summer. It will provide certain limited information about these systems, such as their service and fleet characteristics and ridership estimates. Preliminary information from this effort is incorporated in the forthcoming 1986 report to Congress on the "Status of the Nation's Public Transportation." UMTA is currently exploring ways to maintain this valuable data base to keep it current and to expand the level of information available about rural and specialized transit systems.

RURAL TRANSPORTATION REPORTER

SENATOR ANDREWS: Is it true that UMTA plans to discontinue support for the Reporter and the Information Clearinghouse operated by Rural America. Can you share with members of this committee a report on the Reporter's current status and prospects for achieving self-sufficiency?

ANSWER: UMTA has provided assistance to Rural America for the publishing of the Reporter during the past several years. However at our encouragement Rural America has agreed to undertake a program to make the Reporter self-sufficient. UMTA is currently providing funding for the Rural Transportation Reporter during these efforts. The Reporter is using advertising and subscription service as a means to increase its income.

SENATOR ANDREWS: In view of the role filled by the Reporter, and the contributions it is making to the rural and specialized transit field, what contingency plans have you made to ensure that it will continue to be published and that this assistance will continue to be made available to local operators, even if the Reporter is not fully self-supporting after one year?

ANSWER: The Rural Transportation Reporter has started selling subscriptions for the newletter and is also selling advertising to obtain the long-term financial support it needs. We anticipate that the current UMTA support will be sufficient to sustain the Reporter until it has sufficient income to operate independently.

SENATOR ANDREWS: Have officials at the Department of Health and Human Services indicated an interest in expanding the Reporter's coverage of social service transportation issues, as part of the joint UMTA/HHS initiative to improve coordination of federal transit resources. Have you taken any steps to include continued support for the Reporter as part of an inter-agency working agreement?

ANSWER: Rural America has submitted a proposal to HHS to publish several special issues of the Reporter dedicated to coverage of HHS funded transportation services. Staff at HHS have received the proposal favorably and it is currently under review. The draft working agreement includes a commitment "to identify published information and technical reports which may be useful to human service transportation providers and discuss appropriate means of information dissemination." UMTA has supported the development of the Reporter as a valuable means of information dissemination and has encouraged Rural America in its efforts to make the publication self-supporting through subscriptions and advertising revenue.

URBAN-RURAL DISTRIBUTION OF UMTA R&D AND TECHNICAL ASSISTANCE FUNDS

SENATOR ANDREWS: Please prepare for the committee a break-down in terms of dollar amounts of spending on research and demonstration and on training and technical assistance along the following lines: amount involving information from or activities in major urbanized areas, smaller urbanized areas, and nonurbanized areas.

ANSWER: For the fiscal year ending September 30, 1985, the Office of Technical Assistance obligated a total of $15.2 million dollars of research and training funds. The approximate breakout by the urbanized areas described in your question is as follows:

Major Urbanized Areas	$10.3 million
Smaller Urbanized Areas	$ 4.3 million
Non-Urbanized Areas	$ 0.6 million

UMTA/HHS COORDINATING COUNCIL

SENATOR ANDREWS: The committee is aware that your agency and the Department of Health and Human Services (HHS) have been working together to improve the coordination of Federal transit assistance. Can you tell the committee about the progress you are making on this initiative, and specifically what actions UMTA plans to take to remove barriers to coordination of programs and resources of the two agencies?

ANSWER: A joint UMTA-HHS working group has been meeting for the last several months to develop an overall strategy for addressing the coordination of funds spent on specialized transportation by both Departments. A preliminary list of issues has been identified and through various meetings the working group has also been soliciting input from transportation providers, and State human service and transportation officials. The working group has drafted a formal working agreement to be signed by the two departments which will formally establish a Joint Coordinating Council, define its goals and objectives, and identify key issues and activities to be addressed.

SENATOR ANDREWS: What steps do you plan to take to disseminate the findings and recommendations of the inter-agency working group to state transit officials and local agencies? Do you plan to hold meetings with state and local groups to discuss the results of the initiative? Do you anticipate developing specific legislative or administrative changes to improve utilization and coordination of existing UMTA and other Federal resources? Does the Coordination Council have any staff of its own or is it dependent upon UMTA and HHS personnel who have other program responsibilities? Are the existing staff resources adequate, in your judgment, to carry out the tasks?

ANSWER: We would certainly anticipate making available the findings and accomplishments of this initiative. While we have no plans to hold special meetings on this topic, we will be glad to share the findings with interested groups. It is too early to predict whether the Joint Coordinating Council may recommend changes in Federal legislation. The Council will be reviewing all of the relevant programs of the two departments to determine where the major impediments to coordination lie. This review will identify statutory provisions as well as regulations and other policy guidance that may hinder efforts to coordinate resources. Council will be staffed by UMTA and HHS headquarters personnel with program responsibilities in the affected areas. We believe that this staff will serve the Council well because they will bring a strong working knowledge of the programs to the project. In addition, the Council will call upon representatives from the private sector, State and local government, and transportation providers.

NEW CHARTER REGULATIONS IN RURAL AREAS

SENATOR ANDREWS: Section 18 grantees frequently contract with social service agencies to provide both fixed route and demand responsive services. In addition to their regular services under those contracts, these rural operators often provide what are called "special trips" through which groups of elderly, handicapped, or other disadvantaged clients get an opportunity for outings to some place or event. These are trips which couldn't be taken if the full commercial charter rates applied -- and, in fact, they are frequently possible only because of substantial volunteer contributions to the trip. Is it your intent to prohibit these "special trips" and require that they be made only through commerical charter operations at commercial rates? If not, will the final rule on charter operations make it clear that the sort of "special trips" I'm talking about will continue to be permitted?

ANSWER: The "special trips" which you describe in this question appear to be charter service. Although UMTA recipients can, under the current regulation, provide charter service to groups of elderly persons, handicapped persons or disadvantaged persons and charge reduced rates, this would not be possible under the notice of proposed rulemaking if there were at least one willing and able private operator. In such a case, the recipient would be prohibited from providing the service regardless of the cost charged by the private operator.

There is no reason to believe, however, that private operators would not be sensitive to the needs and resources of the customers and charge accordingly for certain user groups. In this way, a private operator could create good will by charging considerably less for the charter services it provides to groups such as the elderly and handicapped.

The notice of proposed rulemaking does provide several exceptions which would permit an UMTA recipient to provide charter service. One of these would be where the willing and able private operators do not have accessible equipment for elderly and handicapped patrons. As proposed, however, the service you describe would be provided only through a contract with a willing and able private operator, and not directly by the recipient.

The preamble does ask if there should be other exceptions or if those proposed should be modified. UMTA will consider the comments received to determine if the type of service you propose should be included as an exception. At this time, of course, no decisions have been made.

SMALL OPERATORS AND THE INSURANCE CRISIS

SENATOR ANDREWS: Liability Insurance is a serious problem for everybody these days, but it seems it is a particularly critical problem for many of the small transportation agencies. What activities does UMTA have under way to get a clear picture of the special situation of these rural operators regarding insurance? Are you developing recommendations for policy changes or legislative changes that can meet the specific problems of rural and specialized providers with regard to the insurance crisis?

ANSWER: Since last summer, UMTA has been investigating the difficulties that transit providers are having in obtaining affordable liability insurance. In January UMTA convened a one-day symposium in which representatives from transit systems, insurance carriers, insurance brokers, and risk management firms met to discuss the problem. It was agreed that the problem was complex with no single cause. There was no compelling evidence to support the contention that transit systems had become worse insurance risks through poor safety management. Instead, it was believed that transit systems are being affected by causes outside the industry that affect much of American industry. These causes includes the cyclical nature of the liability insurance market, the poor management performance of insurance companies in the past five years, and the long-term affects of expanding judicial interpretations of liability. It was the feeling of many attendees at the symposium that these causes are difficult to address from a narrow transit perspective since these problems affect all American businesses and should be addressed in that context. It was felt that the best approach is for transit systems to take a comprehensive risk management approach and investigate alternatives to commercial insurance as mechanisms for handling risk.

UMTA is now considering a number of activities to support this risk management approach including the conduct of regional seminars on risk management, the preparation of reports on good risk management practices in transit, and the clarification of UMTA program requirements related to the funding of transit system insurance programs. UMTA has also instituted a telephone "helpline" on insurance problems for rural and specialized providers. The helpline is staffed to provide telephone assistance to these providers on their insurance problems.

UMTA is not pursuing directly any legislative changes that can meet the insurance problems of transit providers. UMTA believes that these changes must be addressed broadly to cover the problems of American business in general. UMTA, therefore, supports the findings and recommendations made by the President's Tort Policy Working Group on the liability insurance crisis and the actions being taken in many state legislatures to address the problem.

WMATA - UMTA POSITION

SENATOR ANDREWS: Mr. Stanley, last year before this Subcommittee you indicated support for at least a $187 million appropriation for Metrorail construction based on the belief that the Administration has a commitment to fund the Stark-Harris authorization. This year, UMTA is proposing no new funding under the Stark-Harris authorization. What conditions have changed in the past year to warrant such a radical "about face"?

ANSWER: Difficult funding decisions have been made in order to help meet the deficit reduction requirements of the Gramm-Rudman-Hollings Act. We have proposed discontinuing funding of the Metrorail construction program in FY 1987 because it would be inequitable for the Federal Government to continue this assistance when discretionary assistance is being discontinued for all other construction projects.

SENATOR ANDREWS: Given that a separate continuing authorization exists for this program, why should it be subject to the same conditions that you apply to other new start projects?

ANSWER: The conditions applied to new starts are based on maximizing the fiscal resources available. The existence of a separate authorization does not increase the amount of the federal budget that can legitimately be spent on public transportation and does not, in my opinion, mitigate the need for the efficient use of scarce fiscal resources available. In addition, the Stark-Harris authorization provides that the Secretary shall prescribe the terms and conditions of grants made to WMATA so that funds are used for constructing the system in a cost-effective manner.

SENATOR ANDREWS: Do you believe that Metro deserves special consideration because it is the Nation's capital?

ANSWER: I do not believe that the transit needs of the Washington metropolitan area should receive special consideration over the needs of other communities simply because it is the nation's capitol.

SENATOR ANDREWS: If a full funding agreement is reached on Fiscal Year 1985 and 1986 funding, could you foresee supporting further funding under Stark-Harris for Metro?

ANSWER: Supporting further funding of the Metro program is not simply dependent upon the execution of a full funding agreement. Future support of the program is contingent upon Administration funding priorities and the resources available to meet those priorities. The deficit reduction requirements of the Gramm-Rudman-Hollings act, requiring a balanced budget by 1991, will make funding decisions more difficult in the future as fewer resources are available to meet funding requests. From today's perspective it does not seem as though future Metro funding would receive Administration support.

SENATOR ANDREWS: Mr. Stanley, do you consider the maintenance of a contingency account to be standard operating procedure for new start projects?

ANSWER: Senator, I presume that you are refering to the Capital Reserve Account that we require under our Full Funding Contracts. We require that such an Account be established using any type of non-Federal funds to ensure that there are sufficient funds available to cover any cost-overruns. This Account is actually a "super" contingency account since all construction contracts have contingencies built in as budget line items. My experience has been that major construction projects are grossly under-estimated, and I want to be assured that the Grantee is able to complete the project once it is started and that they have sufficient funds to do so. We have been requiring these Accounts since 1984 and our experience has been that each Grantee addresses the requirement differently. I should note that we have required such an Account for both New Start projects, and major rail modernization projects.

I would also like to point out that it is my understanding that WMATA has a 10 percent contingency line item in its construction budget which is in addition to the contingency set forth for each individual contract.

QUESTIONS SUBMITTED BY SENATOR KASTEN

RULE CHANGES IN CHARTER BUS OPERATIONS

SENATOR KASTEN: Considering that new start-ups in private charter bus operations would be unfortunately hampered by the current liability insurance crisis, did UMTA take the current market conditions into consideration?

ANSWER: By restricting the charter opportunities for UMTA recipients, the NPRM will provide incentives for new entrants into the private charter bus market. Since 1974, the number of private operators has increased from 950 to over 3,000 according to statistics compiled by the American Bus Association. Almost one-half of these operators have come into existence since the passage of the Bus Regulatory Reform Act. Although the liabliity insurance costs for private bus companies have increased in the past few years, we do not believe that this will hamper the steady increase in the number of private bus operators.

SENATOR KASTEN: And finally, what type of input did you receive from convention bureaus?

ANSWER: UMTA published an advance notice of proposed rulemaking on charter bus on October 12, 1982. We received 93 comments, but none were from convention bureaus. As of May 8, 1986, UMTA has received more than 190 comments on the NPRM. Several were submitted by convention bureaus.

MILWAUKEE COUNTY WAIVER REQUEST

SENATOR KASTEN: Mr. Stanley, as you are aware, Milwaukee County has petitioned UMTA for a waiver of the rules on eligibility of Section 9 capital funding for in-house labor costs on its mechanical unit retrofit of 50 RTS buses. Could you please provide me with an update and status report on the County's waiver request?

ANSWER: After consultation with UMTA staff, Milwaukee County indicated that it will purchase the parts and equipment for the retrofit under a Section 9 grant, and will assume the in-house labor costs for the work involved. The labor costs are not eligible under the UMTA Section 9 bus rehabilitation policy since no major structural and/or mechanical rebuild of the buses is required. However, the parts and equipment acquisition is eligible under Section 9(j).

MILWAUKEE COUNTY'S ELECTRONIC FAREBOX BID

SENATOR KASTEN: Mr. Stanley, Milwaukee County has also submitted a grant application for a number of electronic fareboxes. Since the delay on this decision is costing the transit system approximately $40,000 each month in lost revenues, the county is anxious to grant the award to the only company that bid on the project. What is the status of this grant application and when can Milwaukee County expect to receive final approval from your agency?

ANSWER: UMTA approved project WI-90-X041 in the amount of $3.4 million on 9/13/85. This project included funding for the fareboxes. UMTA's regional office in Chicago is expected to approve Milwaukee County's request to make an award to General Farebox Inc. within the next few days.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

GRANT EXECUTION

SENATOR D'AMATO: Congress appropriated $2.15 billion for formula funding for the current fiscal year. How much of the formula funds have been obligated so far this year?

ANSWER: Congress did originally appropriate $2.15 billion for FY 86 Section 9 & 18 formula assistance. However, after the sequestration required by the Gramm-Rudman-Hollings Deficit Reduction legislation was applied, that number was reduced by 4.3 percent to $2.058 billion. As of April 30, 1986, a total of $578,610,546 in Section 9 formula funds and $17,287,915 in Section 18 formula funds had been obligated.

SENATOR D'AMATO: When you obligate funds or enter into an obligation does that mean that the money is in the Grantees' hands for use on proposed projects? Isn't there a final step required to put the money to work, i.e., the execution of a grant contract?

ANSWER: After funds are obligated by UMTA, they then go through Congressional notification, if not already accomplished under our streamlined release process, and a grant award letter and a corresponding contract are sent to the grantee. Upon signing and returning the contract, grantees may, at that time, access awarded funds by submitting a voucher for reimbursement or through a previously approved letter of credit. However, grantees are allowed to incur costs on a proposed project as of the obligation date.

SENATOR D'AMATO: How many grants are in the hands of grantees for execution? How many have been executed? How many are being negotiated and on what basis, and how many have not yet been sent to grantees? What are the dollar amounts of these four categories?

ANSWER: As of April 30, 1986, UMTA had obligated $595.1 million in Sections 9 and 18 formula funds. Under our new grant approval and release procedures these funds have been released. A number of these grants were mailed out on April 15, 1986, and we are awaiting contract execution by the grantees. Grantees can incur costs for proposed projects beginning the day of obligation. Grantees may actually draw down funds after they have executed the Federal contract for approved projects. We do not keep regular summary records on how many contracts are with the grantees.

SENATOR D'AMATO? If grant contract execution is significantly behind obligation, what are the reasons for this?

ANSWER: Contract execution by grantees is not significantly behind obligation. The Federal Government allows the grantee up to 90 days to execute the contract. In our experience this time period has been more than ample to accommodate the grantee's normal contract execution process.

GRANT APPROVAL

SENATOR D'AMATO: You have established a new quarterly grant approval process that presents a considerable challenge for UMTA to administer. Of the 447 grants received in the first quarterly review, only 44% were approved (195 approved, 252 "deferred"). Does this suggest that 56% of the Nation's transit systems cannot respond adequately to UMTA procedures and guidance?

ANSWER: UMTA's analysis of the reasons why grant applications were determined to be incomplete revealed that applicants often fail to provide basic documents and certification required by statute. Of the applications deferred for only a single reason, a lack of a Transportation Improvement Program (TIP) or Unified Planning Work Program (UPWP) rejected 20 projects, lack of self-certifications 14 projects, general funding deficiencies 7 projects, Civil Rights, Environmental and lack of adequate justification 6 projects each. An additional 14 projects fell into an "other" category. The primary reason for rejection in the "other" category was lack of intergovernmental review prior to submission.

In addition to the projects deferred for a single reason, 35% failed to meet two requirements; 18%, three requirements; 10%, four requirements; and, 5% have the distinction of being deficient in five or more of the requirement categories.

We would not say that applicants cannot respond adequately, but rather, applicants tend to submit initially a basic application and to later provide missing items, either in direct response to an UMTA review letter request, or as the material becomes available.

The fact that 56% of the applications were deferred, is the result of UMTA's decision to prioritize and expedite complete applications. In the absence of a quarterly approval schedule, a one time survey of applications in the review process would have identified the same applications as incomplete. The advantage of the quarterly process is that UMTA and the grantees can agree that having made that assessment, UMTA should focus on, and expedite, complete applications, during the time deferred applicants submit missing items. As applicants grow to understand the process, the number of deferrals will decrease, and applicants will plan to submit complete applications and anticipate award of funds to coincide with local budget schedules.

SENATOR D'AMATO: What is the forecast for approval of these deferred grants?

ANSWER: Of the 252 applications deferred in the first cycle, 211 moved forward after applicants subsequently submitted the items previously lacking. Of the 41 projects which continue to be deferred, 33 applicants failed to respond to review letters which cited missing items, 2 were held at the request of the grantees, 1 was held because grantee changed the Federal funding source and 5 were held because grantees failed to provide adequate responses.

SENATOR D'AMATO: Have you taken any steps to reduce the number of deferred grants in the next quarterly review?

ANSWER: In the second review cycle currently underway, UMTA reviewed 423 applications and recommended 75% or 319 projects for approval. When the 252 previously deferred applications are excluded from consideration, data indicate that 109 of the 171 new applications were recommended for approval (63%). As grantees become more familiar with the process their compliance with the requirement to submit a complete application should improve further. UMTA regional staff is advising potential applicants of the results of our review so they can ensure that their applications are not also missing the most commonly cited items.

STUDIES

SENATOR D'AMATO: Could you provide the status of the Long-term leverage financing study (report required by Section 315 of the Surface Transportation Assistance Act).

ANSWER: The Section 315 report was transmitted to Congress on November 22, 1985. The report found that there was considerable potential for leveraging financing sources for major capital investments, using existing Federal, State and local mechanisms. Federal commitments under Sections 3 and 9 would not, in and of themselves, be sufficient security for a long-term debt issue. However, these sources could be combined in an overall financial plan using other sources, many of which are described in the report, into a package that would be able to secure debt.

SENATOR D'AMATO: Could you provide the status of the congressionally mandated study on Policy Implications and Technical Feasibility of Instituting a Minimum Operating Revenue-Cost Ratio (report required of DOT in the 1985 Continuing Resolution)?

ANSWER: The report was submitted to Congress on April 22, 1985.

The study reviewed programs conditioning operating assistance on meeting certain target values for coverage of operating expenses by fare revenues in Ontario, Canada and a number of states; evaluated the Section 15 Data Reporting System for use in implementing a Federal program based on revenue/cost ratios; and evaluated current urbanized area transit system performance in terms of revenue/cost ratios. The study found that it was technically feasible to condition receipt of Federal operating assistance on meeting a minimum revenue/cost ratio. However, the study identified a number of significant issues which would have to be addressed before implementing such a system. These include a need for improvements in the data base and more rigorous audit procedures, a need to examine causes in wide year to year variability in the ratios, and the problems of explicitly defining ratios for various classes of urbanized areas. The study concluded that, while a revenue cost ratio test could contribute to some improvement in the financial condition of transit operators, it would be unlikely in and of itself to effect much improvement in efficiency and could amount to an intrusion by the Federal government into a function that should be locally controlled. Consistent with these conclusions, the study reiterated the belief that Federal operating assistance should be eliminated.

SENATOR D'AMATO: Could you please provide the status of the congressionally mandated Rail Modernization Study (originally requested by Appropriations Committees in 1979)?

ANSWER: The consultants on this study, Gannett Fleming Transportation Engineers, with the assistance of London Transport International, are now nearing completion of the Cost-Effectiveness Phase of the Study. We now have preliminary results and expect a complete draft final report to be submitted to Congress within the next two months. It should be noted that the report will require clearance by the Office of the Secretary and OMB before it can be submitted in final form.

The results indicate the need to examine closely the cost-effectiveness of Rail Modernization projects as for New Starts. In terms of the number of passenger-miles served per dollar of restoration costs, the best segment has a cost-effectiveness ratio 7300 times that of the least cost-effective. This is consistent with a recent report by the Regional Plan Association of New York which proposed ending service on a number of very poorly used segments.

Further, preliminary results show that the most cost-effective segments, which serve 85 percent of passenger miles, can be restored to good condition for about $9 billion, or one-half of the total ten year cost of $17.8 billion of restoring all segments.

There are a number of sources available to pay for these costs beyond any Federal contribution. For example, local areas can pursue any number of value capture schemes so that the users and businesses benefiting from continued rail service will pay a share of the costs. State and local contributions can be increased. The recent announcement of $900 million in support from the Municipal Assistance Corporation's surplus in New York would cover about 22 percent of the $5 billion cost to restore rail service to good condition on cost-effective segments. Other sources include Interstate Substitution funds. For example, Chicago could have used its funds to rehabilitate the existing system rather than construct the Southwest extension. The cost of its cost-effective segments is about $2 billion.

The Engineering Cost Estimate Phase of the study, completed in the spring of 1985, covered only an estimate of the current condition of the rail systems and the costs to bring all elements of these systems up to a good state of repair. It in itself is not a "needs" estimate in that it does not make any assessment of the cost-effectiveness of making the suggested improvements, nor does it assess alternatives to the rehabilitation of these rail systems, given current funding realities.

SENATOR D'AMATO: Could you provide the status of the the Congressionally mandated Section 310 report due January 1986?

ANSWER: A draft of the report is currently being circulated for review within UMTA and will be forwarded for review by the Office of the Secretary and OMB shortly.

In brief, the report's findings validates the diversity of mobility requirements, operating practices and public policies that are unique to each service area. This is the basis for our belief that Federal financial assistance programs, that are inflexible and categorical, hamper local ability and responsibility for responding to their own priority mobility needs and should be changed.

The report documents declines in transit operating efficiency and productivity and identifies some of the underlying causes, such as declining labor productivity, soaring real labor compensation, "chasing" riders into low density suburban areas and high peaking.

The report assesses the industry's capital utilization and finds: (1) evidence of overcapitalization in excess spare bus ratios; (2) preoccupation with extensions; and (3) new starts over maintenance and modernization of existing capital, and pursuit of uneconomic new investment proposals encouraged by the existence of a discretionary grant program and the willingness of Congress to earmark funds for particular projects without regard to objective criteria of project merit.

It finds that local financial planning is not generally adequate to ensure proper investment decisionmaking or assure the existence of the funds that will be needed in the future to operate and maintain the current system.

The report presents evidence of the possibility of achieving from 10 to 50 percent cost savings through competitive selection of operators to deliver transit services. The private sector is ready and able to deliver such savings.

PRIVATIZATION

SENATOR D'AMATO: Is UMTA now conditioning the approval of Section 9 grants on the satisfaction of privatization requirements.

ANSWER: UMTA is required by statute to review local plans and programs to ensure that "such plans and programs encourage to the maximum extent feasible for the participation of private enterprise." Section 9 also requires grantees to both consult with and consider private sector involvement. UMTA looks to ensure that its grantees have developed local procedures to consider such private sector participation. Localities are now actively in the process of developing such procedures and this year's documentation requirements are meant to give a picture of where grantees are in this process. No grants are being held up in this transition year. UMTA is seeking only to ensure that progress is being made toward the development of a local process to fully and fairly consider private sector involvement. Final decisions as to the appropriateness of such involvement is always left to local decisionmakers.

SECTION 6

SENATOR D'AMATO: How much of the Section 6 program has been spent on privatization projects?

ANSWER: The following summarizes the Section 6 obligations for privatization projects in FY 1985 and FY 1986:

FY 1985 and FY 1986 - Office of Technical Assistance - $3.778 million
FY 1985 and FY 1986 - Office of Budget and Policy - 1.290 million
$5.068 million

SENATOR D'AMATO: Please break down these amounts to show how much has been applied to research grants and how much to operational projects.

ANSWER: All of the $5.068 million obligated in FY 1985 and FY 1986 for privatization projects was for research.

SENATOR D'AMATO: How much will be spent in FY '86 and FY '87?

ANSWER: The Competition and Local Involvement Lead Program will budget $13.7 million for the proposed FY 1986 and FY 1987 obligations. The Financing Value Lead Program which has a private-public participating element will budget $6.6 million for proposed FY 1986 and FY 1987 obligations.

PRIVATIZATION

SENATOR D'AMATO: Evidently, it is the Administration's philosophy that local transit authorities are the appropriate decisionmakers with respect to the types of transportation services provided to elderly and handicapped riders. My question is then, are not the same local grantees best suited to make similar choices regarding contracting-out?

ANSWER: UMTA's policy guidance and legislative proposals do not mandate the contracting out of services to private operators or presscribe a specific level of private sector services. Our proposals and guidance seek only competition and an opportunity for private operators to be considered by local decisionmakers as providers of service. The final decision as to which provider best serves the community's interest is left to local officials.

SENATOR D'AMATO: The FY 86 CR contains language in the Conference Report stating that the extent of private sector involvement in public transit is best decided at the local level. The conferees stated that the Federal policy as to choice of service providers is one of "Neutrality." In addition, the Conferees expected that "explicit policy on privatization in the transit industry should be explored by Congress and decided only after appropriate rulemaking with the opportunity for public comment..." How can you reconcile the directive of a unanimous joint committee of Congress with UMTA's current privatization policy?

ANSWER: UMTA's current privatization policy, as specified in the October 1984, policy statement and the guidance issued in January 1986, encourages local governments to take into consideration the opportunities for eliminating excessive waste by exploring the type and cost of privately available services. These documents state that UMTA seeks only that fair and timely comparison of the private options be made and specifies documentation needed for UMTA to make its statutory findings. Section 3(e) of the UMTA Act requires that "...the Secretary finds that such programs, to the maximum extent feasible, provides for the participation of private mass transportation companies..." Section 8(e) states that "The plans and progrmas required by this Section hsall encourage to the maximum extent feasible the participation of private enterprise," and Section 9(f) states that "each recipient shall publish a proposed program of projects in such a manner to afford affected citizens, private transportation providers, and...an opportunity to examine its content and to submit comments..." and "in preparing the final program of projects...thee recipient shall consider any such comments and views, particularly those of private transportation providers, and shall, if deemed appropriate by the recipient, modify the proposed program of projects." It is still the choice of local transit decisionmakers to decide what type of services should be provided, when and where they are needed and who is best qualified to provide that service.

Additionally, UMTA has not as yet issued a proposed rule on private enterprise. UMTA would consult with Congress before issuing such a rule as specified in the Committee Report.

CONSTRUCTION MANAGEMENT OVERSIGHT

SENATOR D'AMATO: What is the status of UMTA's project to hire consultants to handle construction management oversight?

ANSWER: We have progressed through the Federal Architecture/Engineering (A/E) procurement process to a point where we are now negotiating with the most highly qualified A/E firms. Within the next several months we anticipate awarding Project Management Oversight contracts with ten A/E firms. Simultaneous with these negotiations we are reviewing and prioritizing our needs for Project Management Oversight services on over 25 major UMTA projects. These two activities will come together over the next several months and result in the assignment of Project Management Oversight contractors to some of our priority projects.

SENATOR ANDREWS: Does UMTA recommend that the subcommittee include language in the FY 1987 appropriations bill to continue this program?

ANSWER: If the House and Senate adopt reauthorization measures that essentially continue the transit program in its current form, we think it would be more useful to have the project management oversight provision set forth in such a bill rather than having it put in an appropriations bill each year.

WOMEN'S BUSINESS ENTERPRISE

SENATOR D'AMATO: On April 3, 1986, I wrote to you concerning a certified women's business enterprise, Glastek Corporation, which has experienced difficulty in receiving full scheduled payments from a prime contractor for work performed on a contract with the NYCTA. What is UMTA doing to investigate this matter and to assure that the grantee complies with its obligations under the Federal regulations governing minority business enterprises? When will this matter be resolved?

ANSWER: UMTA recently reviewed a case involving the Glastek Corporation and found that the New York City Transit Authority (NYCTA) took appropriate action in carrying out the provisions of the UMTA Minority Business Enterprise Program. Ms. Joan Pardini, President of the Glastek Corporation, has named NYCTA as a party in a court action. Thus, it is not appropriate for UMTA to further comment at this time.

QUESTIONS SUBMITTED BY SENATOR CHILES

PRIVATIZATION

SENATOR CHILES: With the Block Grant proposal, was there a Legislative provision that would require transit properties to contract out transit services -- 5 percent of their total transit operating costs in 1987; 10 percent in 1988; 15 percent by 1989; and 20 percent by 1990? Conference report language associated with last year's continuing resolution noted that "the extent of private sector involvement in the provision of public transit is best decided at the local level." The language went on further to indicate that conditioning the release of funds on a certain level of private sector involvement would not be considered consistent with current law. What are UMTA'S current requirements to transit properties with regard to privatization? The committee understands that UMTA is developing administrative guidelines on the subject of privatization. When will these be issued in final form?

ANSWER: UMTA has included in its Block Grant proposal a provision that asks grantees to compete a portion of their services based on - 5, 10, 15, and 20 percent of their operating costs over the four years period of the authorization. However, it should be stressed that the provision requires competition, not contracting out since both public transit agencies and private operators are able to compete. If the public transit authority provides the most responsive bid, the service would not be contracted.

With respect to UMTA's current requirements with privatization, I would note that the Secretary since the inception of the program has always been obligated by the Act to make Secretarial findings that local plans and programs encourage the participation of private enterprise to the maximum extent feasible. Congress and GAO have both called for UMTA to develop more explicit criteria on how it makes its findings. In October 1984, UMTA issued its policy regarding private enterprise outlining the elements which it takes into consideration in making the statutory findings. More recently, in January 1986, UMTA issued guidance as to the kind of documentation it is seeking to make the required findings. Nothing in either document requires a specific level of private sector involvement. Rather, these documents state that UMTA seeks only fair and timely consideration of private sector opportunities, leaving the final decision regarding actual involvement to local decisionmakers. After reviewing the comments on the January documentation guidance, UMTA hopes to issue a more permanent circular on that subject this summer. However, UMTA does not intend to issue a regulation at this time pending the outcome of legislative consideration of its private sector proposals.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

SENATOR CHILES: We have Carmen Turner, Director of the Metro system here in Washington, with us this morning and she will testify right after UMTA. I'm sure she does not agree with the Administration's proposal to provide no construction funding for Fiscal Year 1987. The Committee has heard from Mrs. Turner and her staff regarding the negotiations she has underway with you for the release of funds appropriated in Fiscal Years 1985 and 1986. When can we expect UMTA to reach an agreement with WMATA to permit the release of these funds?

ANSWER: It is difficult to predict when an ongoing negotiation will be completed. Both UMTA and WMATA are actively involved in negotiating a full funding agreement which will set the stage for the release of the balance of the funds appropriated in Fiscal Years 1985 and 1986. However, the WMATA board has not as yet submitted a revised construction plan, a key ingredient of the full funding agreement, to the local political jurisdictions for their approval. That plan, when it is approved, will have to be submitted to UMTA for review and acceptance before the full funding agreement can be executed.

INFLATION RATE

SENATOR CHILES: Your budget justification requests a projected inflation adjustment assuming a 5 percent inflationary estimate. Assumptions recently made in the Senate Budget Resolution project a 2 percent inflation rate. Don't you think we should base the UMTA budget on a more realistic inflation assumption?

ANSWER: The economic assumptions for inflation in the 1987 budget were provided to UMTA by OMB in Decemoer of 1985. The Federal purchases deflator for civilian government purchases was about 5 percent.

SAVINGS FROM EMPLOYMENT REDUCTIONS

SENATOR CHILES: Your budget shows administrative savings of almost $5.6 million resulting from the planned staff reduction of 101 positions. This would be partially offset by RIF costs of $2.2 million. In view of the more realistic assumption that the block grant proposal will not be accepted and an upward revision of the personnel numbers is therefore needed, what can be saved in 1987 because of staff reductions?

ANSWER: The continuation of existing UMTA programs at their current level will require $32,411 thousand in Administrative Expenses funding, and would result in only modest staff reductions to 455 full-time equivalent work years in FY 1987. This funding level would include increases of $655 thousand in rent as estimated by GSA, $750 thousand for relocation of about 10 personnel, $256 thousand for inflation, $653 thousand for within-grade pay raises and Merit Pay awards, and $310 thousand for the final purchase of Office Automation equipment (previously planned for FY 1986, but delayed due to Gramm-Rudman reductions). These increases would be partially offset by a decrease of $87 thousand for staffing adjustments and implementation of the new Financial Management System. Costs of involuntary separations of employees will essentially be offset by the savings in salaries and benefits costs.

STAFFING AND STANDARD LEVEL USER CHARGES (SLUC)

SENATOR CHILES: Mr. Stanley, your budget justification shows a 30% reduction in your administrative expenses for your office space costs, the so-called Standard Level User Charge or SLUC. Presumably, this reduction reflects the 20% reduction in staffing called for in the budget. What specific square footage reductions are reflected in the request? What is the cost per square foot assumed compared to last year's costs? Do you have a basis for this change? If the Administration's Block Grant approach is not acted upon, what will be the appropriate SLUC cost based on revised staffing requirements?

ANSWER: The FY 1987 space rent request included a reduction of 20,000 square feet in office space. The cost per square foot assumed is $20.50 in FY 1987 compared to $15.90 in FY 1986. The square footage costs are established and reported to to us by the General Services Administration (GSA). If the Block Grant legislative proposal is not accepted and the proposed staffing reductions are not made, these office space costs in FY 1987 are projected to be $2,527 thousand by GSA.

RESEARCH, TRAINING AND HUMAN RESOURCES PROGRAM

SENATOR CHILES: Your Budget requests up to $19.5 million in funds for the Research, Training and Human Resources Program. There is no backup material, however, which justifies or explains how this level was derived and what the consequences of a lower level of funding would be.

What are the costs of the major categories within this account?

Can you quantify the major goals, objectives and accomplishments in these areas?

What would the impact be of a 10% and a 20% reduction in this account?

ANSWER: The distribution of the Research, Training and Human Resources budget (taking into account Gramm-Rudman-Hollings) is proposed as follows:

	FY 1986	FY 1987
Office of Technical Assistance-Section 6	17.8	13.3
Budget & Policy & Civil Rights-Section 6	4.9	3.0
Mgmt. Training & Univ. Res.-Sections. 10 & 11	2.0	2.5
Human Resources-Section 20	4.8	.7
Total	28.5	19.5

The Office of Technical Assistance has been restructured into four Lead Programs that have replaced the thirteen (13) traditional program categories. Hence, the proposed FY 1986 and FY 1987 obligations are primarily based on the Lead Programs and their support activities.

	FY 1986 Estimate (000)	FY 1987 Estimate (000)
Safety and Security	$2,200	$2,089
Competition and Local Leadership	7,100	6,468
Financial Reform	3,500	3,120
New Transit Policy Trends	1,700	1,621
Lead Program Support	3,300	
Total	$17,800	$13,300

A description of these Lead Program units follows:

SAFETY AND SECURITY

The Passenger Protection program unit will encourage the design of safe equipment and facilities. Through information sharing and dissemination, the Passenger Protection program unit will increase the sensitivity of transit agencies to safety and security issues and problems. By means of techniques, demonstrations, development of guidelines and training, this program unit will examine emergency preparedness and evacuation, coordination of safety and security incident responses and improved communication and surveillance.

COMPETITION AND LOCAL INVOLVEMENT

The Privatization program unit includes research, demonstration and information dissemination projects that will encourage and show the beneficial involvement of the private sector in transit operations, maintenance and administrative functions. Innovative arrangements with the private sector that reduce costs and introduce operational efficiencies emphasizing competitively awarded contracts will be identified and disseminated throughout the industry.

The Revenue Maximization program unit include improvements in fare management procedures and techniques, optimization of fare structures and policies, and development of guidelines to ensure accountability for revenues collected. Other studies will examine the effects of alternative transit pricing strategies, revenue/expense tradeoffs to optimize net income, and market research plans.

The Managing Productivity program unit identifies personnel practices, procedures, and tools that support employee and management initiatives to achieve cost reduction and productivity increases. In collaboration with management and labor, efforts will be directed to identify projects that improve the recruitment, selection, evaluation and retention of transit personnel.

The Energy and Methanol program unit will focus on generic problems and identify areas of opportunity for participation by the private sector in the development of equipment and techniques aimed at reducing rising energy bills and meeting more stringent emission standards. Such equipment and techniques will be evaluated for national application. Areas of consideration include methanol fuel, high efficiency propulsion, control and distribution systems, emissions control and energy conservation strategies.

FINANCIAL REFORM

The Financing Value program unit involves the development and dissemination of procedures, techniques and guidelines for UMTA to maximize the value received from each dollar expended on new and improved federally-funded transit facilities and equipment. The Financing Value program unit includes a broad range of analysis and evaluation activities to assist localities in the reduction of both the local and Federal share of transit capital and operating expenditures. Innovative financing mechanisms will be studied to encourage and increase private participation.

The Protecting Investment program unit's singular objective is to assure that the expected useful life of equipment and facilities purchased with Federal assistance will be realized at the lowest cost of ownership. Projects have been designed to identify best industry practices in the maintenance and repair of capital facilities and equipments.

NEW TRANSIT POLICY TRENDS

The National Leadership program unit provides for information collection and analysis that is an important foundation for the understanding of current conditions and trends in the industry. The unit encompasses the determination of what information is required, the actual collection of such information, analysis of data and development of mechanisms to share this with the industry and affected markets.

The impact of a 10% or a 20% reduction in these activities would be to reduce the scope of the efforts in each area, and therefore would reduce the overall effectiveness of the program.

METHANOL BUSES

SENATOR CHILES: Would it not be wise to develop an implementation plan for conversion of existing transit buses to methanol by transit operators if we are cut off again from foreign sources of oil?

ANSWER: UMTA has constructed a detailed program of bus demonstrations and supporting studies to prepare the transit industry for the use of methanol fuel. A formal

planning document and a "critical path" schedule have been developed and informal assistance arrangements have been made with DOE, EPA, Transport Canada and various local and state government entities. Transit operators interested in the fuel have been briefed on the UMTA program and informed of the Federal resources available to them.

As part of this program an implementation plan for conversion of existing fleets to methanol will be accomplished as a portion of the planned Argonne National Laboratory/UMTA effort to develop a methanol bus handbook.

SENATOR CHILES: What plan does UMTA have for the conversion of additional buses to methanol or the procurement and testing in service of new buses powered by methanol?

ANSWER: The UMTA methanol bus program provides for the demonstration of a total of 100 methanol buses at five or six operating sites. Both "new" and "modification kit" buses will be tested. Sites currently involved include the Florida Department of Transportation (20 buses), Los Angeles (30), New York (32) and Seattle (10). A cold weather, high altitude site is currently being recruited.

TRANSPORTATION FOR THE DISADVANTAGED

SENATOR CHILES: The Florida Coordinating Council for the Transportation Disadvantaged has recommended to Secretary Dole that there be created a National Coordianting Council for the Transportation Disadvantaged. The latter would include representatives of Federal agencies, the States and the constitutents to be served. The purpose would be to insure that federally funded transportation and social programs are coordinated in such a way that we get all that is possible in terms of quality transportation services from the limited Federal funds available from both the transportation programs and the social programs with transportation components. What do you think of this idea?

ANSWER: We have already been working with the Department of Health and Human Services (HHS) to establish an interagency working group under an interagency agreement to further the goal of coordination in Federal funding. I believe such national coordination is important. However, I believe we have enough in the way of existing tools to act in this area without establishment of another Federal council.

I also believe that the most important coordination that can occur will be at the local level since it is there that the service is actually delivered. We have already made substantial strides to eliminate restrictions on the use of Federal mass transit funds which hinder coordination and believe that HHS has also done so for their programs. Our experience indicates that it is the separate nature of the individual social service programs that cause the greatest barriers to coordination.

Organizations like that in Florida are to be commended for identifying specific problems. Often it is these kinds of local initiatives that are much more useful in obtaining practical solutions to specific problems than a broadly constituted Federal council, far from day-to-day operations, could do.

SENATOR CHILES: Would you as the Administrator of UMTA be the logical person to chair a National Council for the Transportation Disadvantaged if one was formed or should it have higher visability within the USDOT?

ANSWER: Since all of the transportation assistance programs within the Department which require coordination with social service programs are within UMTA, it would be appropriate that we continue to work with other agencies on program coordination. That is why we have taken the lead in the Department in establishing the interagency working group with HHS.

SENATOR CHILES: What problems do you see in forming such a National Council if we use only those resources now available to us?

ANSWER: I believe our experience in working with the Department of Health and Human Services in setting up an interagency agreement on this subject indicates that present resources are adequate.

CHARTER BUS OPERATIONS

SENATOR CHILES: Would you describe for the record what you think is causing revenues of private bus operators to fall?

ANSWER: The intercity bus industry operates both charter and regularly scheduled intercity service. Because of growing competition from other modes -- especially airlines -- over the last two decades, scheduled intercity service has declined steadily. Operating profits have fallen from 11 percent in 1960 to 1.7 percent in 1984. In fact, without package service and charter, these companies would consistently operate in the red.

This has led intercity bus companies to rely heavily on charter service to make money, since charter service generally runs with higher load factors and longer trip lengths. The charter share of total private bus company passengers grew from 14 percent in 1960 to 59 percent in 1984.

Charter services by public operators thus cut at profit center of Class I private operators. Small private operators who provide only charter are threatened even more.

SENATOR CHILES: In light of the fact that the charter revenues of UMTA recipients was only about $45 million in 1983 as compared to $1.3 billion in charter and tour revenues for private bus operator, do you not think that there may be other factor - such as competition from the airlines, low gasoline prices and popularity of the private automobile - which are causing most of the revenue problems for the private bus industry?

ANSWER: The national revenue figure of 1.3 billion dollars for private bus charter and tours obscures the real damage done by publicly subsidized charter. While other factors have played a role in the problems of private bus companies, competition from publicly subsidized charter strikes at the most profitable operations of an intercity operator and the only profit sources for small charter operators. The $45 million dollars in public charter revenues is larger than the total profits of all intercity (regular schedule, charter, tour, and package) service in 1983.

The national number also hides the effects of public operations in individual communities. Many public authorities do little charter service, but others -- large and small -- dominate their local markets to the detriment of private operations. Our ever-growing list of complaints from private operators is testimony to this effect.

REORGANIZATION OF REGION IV OFFICE

SENATOR CHILES: Would you describe for the Committee what the reorganization plans are for the Region IV office of UMTA?

ANSWER: Effective May 1, 1986, Peter N. Stowell, the Region III (Philadelphia) Regional Administrator, was assigned to be Acting Regional Administrator for Region IV (Atlanta). Mr. Stowell will oversee program delivery in both regions and will be able to deploy the resources of the larger combined staff to target service more effectively to UMTA grantees in both Regions III and IV.

Effective May 15, 1986, the direct grant servicing responsibility for Tennessee, North Carolina, South Carolina, and Kentucky was reassigned from Region IV to Region III to achieve a more equitable balance in workload.

SENATOR CHILES: **What prompted the need for this reorganization?**

ANSWER: The imbalance of staff and workload between Regions III (Philadelphia) and IV (Atlanta) was the primary reason for the reorganization. The loss of eight staff members in the Atlanta Regional Office during calendar year 1985 made it impossible for the Region to meet the standards of grant delivery services which have been established for all of UMTA's regional offices. At the same time, the Region III office, which was not experiencing staff turnover (only one loss during calendar year 1985), was in a position to take on a larger workload due principally to improvements in their grant processing system, including enhancements to the automated Grants Management Information System.

SENATOR CHILES: When do you plan to assign a permanent Regional Administrator?

ANSWER: At this time we have not made a determination regarding a permanent Regional Administrator for our Atlanta office. We want first to evaluate how this arrangement operates before a final decision is made on selecting a permanent Atlanta Regional Administrator.

SENATOR CHILES: What other changes do you plan to make in staffing and management to improve the performance of the Region IV office?

ANSWER: At this time UMTA does not intend to make any further significant changes to staffing and program management responsibilities in Region IV. We believe that the temporary assignment of the four Region IV States to Region III and the assignment of Peter N. Stowell as the Acting Regional Administrator of the Atlanta Region will improve and stabilize the program delivery of Region IV. We intend to continue to monitor Atlanta, along with our other Regional Offices, to ensure that UMTA constituents receive timely and quality assistance.

SENATOR CHILES: Are there any plans being made to close the Region IV office and transfer its functions to another region?

ANSWER: UMTA has no plans at this time to close the Region IV (Atlanta) office.

QUESTIONS SUBMITTED BY SENATOR SASSER

SENATOR SASSER: On April 9, 1986, in the banking committee, I requested from you a justification for the reorganization of the Atlanta Regional office. I have yet to receive such a justification. Can you tell me when I might receive one?

ANSWER: Following are the reasons that prompted and justify the reorganization of the Atlanta Regional Office.

The reorganization is based on various interrelated reasons which, together, support the reorganization involving Region III Philadelphia and Region IV Atlanta. The overriding basis for the merger is staffing considerations. The loss of eight staff members in the Atlanta Regional Office during calendar year 1985 made it impossible for the regions to meet the standards of grant delivery services which have been established for all Regional Offices. At the same time, the Region III office, which was not experiencing staff turnover (only one loss during calendar year 1985), was in a position to take on a larger workload due principally to improvements in their grant processing system, including enhancements to the automated grants management information system. To correct this imbalance and provide the most cost-effective delivery system possible, UMTA considered several options.

The Agency considered reassigning staff from Philadelphia to Atlanta, but this was not a realistic option because of serious cost considerations. Recent changes in the laws governing permanent changes of station for Federal employees have increased the cost of such staff moves to roughly $75,000 per employee, and to relocate the necessary staff would cost approximately $225,000 to $300,000. At a time when the Federal Government is striving to implement the Gramm-Rudman-Hollings' Deficit Reduction Act, this option did not appear to be a prudent course of action.

Another option which UMTA considered was to reduce staff in Philadelphia and hire new staff in Atlanta. While this would have been somewhat less expensive than relocating staff, the direct cost of a reduction-in-force (RIF) in Region III (approximately $100,000), coupled with the disruption and loss of productivity which a RIF would create in an office which has been historically a model of efficiency, led us to the conclusion that this also would not be a cost-effective alternative. This view was reinforced by considerations of the loss of efficiency and productivity that would occur in Atlanta while we were recruiting and training new staff for that office. Furthermore, there was no assurance that new recruits in Atlanta could be trained quickly enough to replace immediately the skills of the seasoned employees RIFed in Philadelphia.

After assessing the various staffing options, UMTA concluded that the most cost-effective way to provide a high level of service to our grantees in both regions would be to leverage the strengths of both organizational units and optimize the effectiveness of employees working in both Philadelphia and Atlanta.

To achieve this, we appointed one Regional Administrator for both regions and transferred the grant-delivery responsibility for North Carolina, South Carolina, Kentucky, and Tennessee from the Atlanta Regional Office to the Philadelphia Regional Office. This option has several advantages: 1) it involves little or no direct cost; 2) it facilitates the installation in Region IV of the highly efficient, service-oriented grant delivery system which is already in use in Region III; 3) it gives the Regional Administrator flexibility to modify workload and staff assignments to meet changing needs, thereby improving the level of service without additional staff; 4) it permits a staff reduction of 15 percent (7 positions) from the total authorized ceiling of 46 positions for the two regions to 39 positions, for a direct cost savings of $307,600 annually in salaries and benefits. This staff reduction of seven positions represents recent vacancies that will not need to be refilled. In addition, no employees in either location will be displaced, reassigned, or separated.

SENATOR SASSER: I understand there has been no official notification to any of the Tennessee Mass Transit Authorities of the transfer of functions from the Atlanta office to the Philadelphia office. Can you tell me why? Do you intend to give them any further guidance regarding the transfer of functions?

ANSWER: On April 21, 1986, a letter was sent to all grant recipients in Tennessee and all other recipients in Region's III and IV announcing a change in leadership in our Atlanta region. Our colleagues will be kept informed of any further changes regarding the transfer of functions.

SENATOR SASSER: You explained to me in our April 9th banking committee hearing that this move has not been approved by either the Secretary nor OMB, and there was no final decision made yet. If this is the case, why have boxes been sent already from Atlanta to Philadelphia? When do you intend to make a final decision? Is this only a temporary move, or do you see this reorganization as permanent?

ANSWER: Our proposal was discussed with cognizant Office of Management and Budget and Office of the Secretary staff members and neither had any objections to making this change on a temporary basis. Therefore, on May 1, 1986, Peter N. Stowell, who is UMTA's Philadelphia Regional Administrator, was assigned to also serve as Acting Regional Administrator of the Atlanta office. Since May 15, some administrative records were transferred to Region III from Region IV in order to ensure that all grantees in both regions receive quality and timely processing of their grant requests.

SENATOR SASSER: Can you tell me why Mr. Stowell is going to assume administration of both the Atlanta and Philadelphia Regions? Why are you not hiring a replacement for Charlotte Adams as Administrator for the Atlanta Region?

ANSWER: Ms. Charlotte M. Adams, who had been temporarily detailed to Atlanta for the past nine months as the Acting Regional Administrator, had agreed to that temporary detail while awaiting a permanent reassignment in Washington, D.C. which she has now obtained. In keeping with the Agency's operating philosophy, we detailed to the Atlanta Regional Office another seasoned regional employee, Mr. Peter N. Stowell, who currently is our Philadelphia Regional Administrator. Mr. Stowell, a native of Florida, uniquely is qualified to assume the chief job in Atlanta since he is one of our most experienced Regional Administrators and because of his extensive work with mass transit projects in several southern States, including Alabama, Georgia, Florida, Louisiana, and Mississippi.

After reviewing the staffing problem in Atlanta, which was at only 65 percent strength, and in light of the funding restriction of the Gramm-Rudman-Hollings' Deficit Reduction Act of 1986, we decided that this temporary change was the most sensible and cost-effective solution.

QUESTIONS SUBMITTED BY SENATOR GORTON

SENATOR GORTON: Have the Seattle Metro people negotaited in good faith to obtain the full funding contract required by Section 320?

ANSWER: Yes they have. They have been very cooperative in responding to all our concerns and in developing contract language that is acceptable to UMTA.

SENATOR GORTON: Why then have you not concluded those negotiations and executed a full funding contract for the Seattle bus tunnel project?

ANSWER: UMTA executed the contract on May 15, 1986.

SENTAOR GORTON: UMTA's failure to faithfully execute the requirements of Section 320 may force a construction delay in the Seattle bus tunnel project. If UMTA causes a delay, why shouldn't it be expected to finance the full cost of such delay?

ANSWER: Because UMTA executed the contract on May 15, 1986, it is not expected that any construction delays will occur due to the timing of the executed contract.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

STATEMENT OF CARMEN E. TURNER, GENERAL MANAGER

ACCOMPANIED BY:

JOHN S. EGBERT, DEPUTY GENERAL MANAGER

WILLIAM A. BOLEYN, ASSISTANT GENERAL MANAGER FOR FINANCE AND COMPTROLLER

FORREST T. GAY, ASSISTANT GENERAL MANAGER FOR DESIGN, CONSTRUCTION AND FACILITIES MAINTENANCE

OPENING REMARKS

Senator ANDREWS. The subcommittee will come to order. It is good to have you here, Madam General Manager. We are under a time constraint, so I would hope the committee would come to order and we would appreciate hearing your remarks. We have your statement in the record in its entirety and if you could summarize, it would give us some time for questions and make a more complete record.

STATEMENT OF GENERAL MANAGER, CARMEN E. TURNER

Ms. TURNER. Thank you, Mr. Chairman. Good morning, members of the committee. I appreciate this opportunity to testify before you today about the status of the Washington Metropolitan Area Transit Authority, the rail construction program, and our request for appropriations under Stark-Harris legislation to support the continuing rail construction.

As a point of reference, and I will try to go through this as quickly as possible, you will recall that WMATA was specifically created by the Congress in order to construct a rail system in the Nation's Capital.

The Congress did so upon the urging of a succession of administrations of both parties which recognized the importance of such a system to the vitality of the Capital region and to the operations of the Federal Government.

In enacting the original authorizing legislation, the Congress deliberately created a very special Federal/local partnership in order to construct a premier subway worthy of the Nation's Capital. The system was designed to serve the transportation needs of this region's citizens, including the many people who are employed by the Congress and the Federal agencies, those who do business in the National Capital Region, as well as numerous visitors from all over the country and the world.

CONSTRUCTION PROGRESS

Let me turn very quickly to the construction program. And I would like to use the map that we have here.

The map shows the 103-mile system and the 89.5 miles of that total which could be built within the Stark-Harris authorization.

We are currently operating the Red Line from Shady Grove to Silver Spring, the Yellow Line from Gallery Place to Huntington, the Blue Line from Addison Road to National Airport, and the Orange Line from New Carrollton to Ballston, and I might say that there has been tremendous development on that Ballston corridor. We will open the remaining 9 miles of the Orange Line to Vienna 1 month from today, and we certainly invite everyone here to join us in that celebration.

Construction is underway on the Red Line from Silver Spring to Wheaton; on the inner Green Line between U Street and Gallery Place and from Waterfront to Anacostia; and on extending the Yellow Line from King Street to Van Dorn.

We have also broken ground on the Prince George's portion of the Green Line which will eventually extend from Fort Totten to Greenbelt. These areas in which construction is now going on constitute the portions of the full adopted regional system that were defined in our Interim Capital Contributions Agreement to be funded under the Stark-Harris authorization.

OPERABLE SEGMENTS

Now, there has been substantial discussion about operable segments and usable facilities. It certainly has always been WMATA's goal to build only segments which could operate and facilities which are usable. The difference in point of view does not relate to whether what we build is a usable or operable segment, but to the sequence in which we build and the level of funding which is assured to be available for construction.

The National Capital Transportation Act of 1965 which created Metro and the National Capital Transportation Amendments of 1979, the Stark-Harris authorization, are both predicated on the construction of the full adopted regional system and multiyear funding, not small segments to be funded over 1 or 2 years. Thus, our construction program is designed to take advantage of cost saving opportunities whenever they arise within the full system.

I might point out that we try to minimize our costs by moving projects when they are construction-ready. We also have heard much discussion about the Waterfront Station. We built that station in 1974 at a cost of $16 million because it was ready to proceed. It was delayed because of litigation. That litigation has now been resolved and construction is ongoing.

If we had waited until today to build that station, it would have cost us $30 million instead of the $16 million.

REVISED CONSTRUCTION PLAN

As a result of our most recent guidance from the administration, on Thursday, March 27, the WMATA Board of Directors adopted in principle and sent to the jurisdictions for their approval a construction plan which would, we believe, meet the UMTA requirements that the only Federal contribution to Metro rail construction would be the fiscal year 1985 and fiscal year 1986 appropriations and that funds would be applied only to segments which can be brought into revenue operations using the resources identified in the plan.

We are working to achieve the agreement of all jurisdictions on this plan. A 2-year appropriation limit makes it especially difficult, since the fiscal years 1985 and 1986 appropriations do not provide sufficient funds to carry out a construction program consistent with the regional plan which allows for substantial construction on the Green Line in the District of Columbia and in Prince George's County.

I must point out that I believe, and I am sure you do too, that it would be unfair to our citizens and destructive to the regional coalition necessary to operate Metro for construction in one of the region's most transit-dependent areas not to proceed.

In order to accommodate these new requirements and to guarantee the construction of operable segments, we propose to reprogram funds which would otherwise have been used for important bus and rail rehabilitation and replacement projects, thereby delaying those projects. And we are requesting that local jurisdictions commit now to make available the match for expected future Federal appropriations.

This is an interim arrangement to underpin the rail construction program pending availability of the fiscal year 1987 funds. We recognize that it puts us at great risk. Without the fiscal year 1987 appropriation, these critical projects would have to be forfeited.

However, this regional plan continues to provide for the construction of the full 89.5 miles within Stark-Harris as set out in our Fourth Interim Capital Contributions Agreement. The proposed new plan has three parts. The first phase would finance construction from Fort Totten to Prince George's Plaza; from Silver Spring to Wheaton; from King Street to Van Dorn; and on the inner Green from Anacostia to U Street.

The second phase would finance construction from Prince George's Plaza to College Park, and the third phase would complete the outer Green Line to Greenbelt. The last appropriation based on the ICCA–4 would cover construction management, insurance, and startup costs.

INFLATION

There has been much discussion about cost of delays and I think it is important to highlight that. Over the past 17 years, the Metro Rail Construction Program, originally planned to be completed in 10 years, has been subjected to numerous delays due to such factors as alignment changes, the introduction of an extensive public hearing process, substantial litigation, a complex approval process including numerous

Federal agencies ranging from the Fine Arts Commission to the Architect of the Capitol, design changes necessitated by unexpected conditions, lower-than-planned appropriations, and delays in the release of appropriated funds. Combined with double digit inflation, these delays are the primary reasons that the cost of constructing the rail system keep climbing.

Chart 2 in my testimony shows that for the $9.4 billion which we estimate to be the total cost of constructing the full system, about $3.5 billion is for bricks, mortar, steel, and equipment. Almost twice that amount, $5.9 billion, is due to inflation, almost all resulting from delays.

I might point out that when the Stark-Harris authorization was passed——

Senator ANDREWS. Madam, let me just ask one question. You have an inflation rate of 200 percent based on that. What does the CPI give us an inflation rate in the last 15 years?

[Pause.]

Senator ANDREWS. Do you know, Mr. Stanley?

Mr. STANLEY. I think in the last 15 years the composite CPI rate is in the range of about 6 to 9 percent.

Senator ANDREWS. Sixty to 90——

Mr. STANLEY. Six to 9 percent, I said.

Senator ANDREWS. Six to 9 percent annually. Which would give you about a 90- to 95-percent inflation over that period of time which would give you an inflation of $3 to $3.5 billion, not $5.9 billion.

Mr. STANLEY. I would like to point out, when construction cost estimates are made by WMATA, or by any other transit authority that presents construction costs over a multiyear basis, they do include an inflation factor. And the thing that concerns me about this particular chart is the construction cost increase after the cost to complete the system under Stark-Harris was estimated at $1.7 billion—at a time since 1980 when inflation has gone down from what was projected, rather than up—when there has been functional deflation in construction costs in this area. Nevertheless, there was a $2 billion projected increase in costs in a 5-month period in 1980.

Ms. TURNER. Mr. Chairman, we are talking about a 9-percent inflation rate over the past 17 years. If you compound that over a 17-year period, I think it comes out to about 150 to 200 percent.

Senator ANDREWS. Well, at what point are you referring to the system cost of $3.5 billion? Wasn't that at the authorization point? The $3.5 billion is the estimate made at the time WMATA was authorized, as I understand it.

Ms. TURNER. No, sir.

Senator ANDREWS. Well, where does the $3.5 billion figure come from?

Ms. TURNER. The $3.5 billion represents what we believe it would cost if we could build the sytem based on our Fourth Interim Capital Contributions Agreement and if we could then build the system through the 103 miles, and that would require additional funding beyond Stark-Harris. So we are talking about completion of the entire system. That takes into consideration both authorizations, plus——

Senator ANDREWS. But starting when? In this appropriations business, we have to have base points. And you cannot just pull a figure out of the air. The $3.5 billion, I would assume, is your estimate or an estimate that was made before you were onboard of what the cost of construction or the authorized amount was at a given point in time.

Now, at what point in time was that?

Ms. TURNER. The $3.5 billion is our best estimate of what it would cost to build the 103-mile system if we factor out inflation over the life of the construction program.

Senator ANDREWS. Starting when?

Ms. TURNER. Starting with the very first authorization in 1979. Is that correct, Bill?

Senator ANDREWS. In 1979?

Ms. TURNER. 1969.

Senator ANDREWS. 1969.

Mr. BOLEYN. Mr. Chairman, I could run through how that figure was finally derived if you would like.

ORIGINAL SYSTEM COST ESTIMATE

Senator ANDREWS. No; what we will do is have our staff find, since you raised the point, the authorized expectation at the time of authorization. In other words, when the authorization bill was passed, there had to be a dollar figure attached.

Mr. STANLEY. The dollar figure at that time, Mr. Chairman, was $2.5 billion. That figure included inflation. The most recent estimate, which has caused our concern, in support of Stark-Harris, again to complete the system, included inflation.

So where I have difficulty with the chart is to treat inflation as an extraordinary cost when each of the cost estimates during the period of the last 15 years have included inflation.

Senator ANDREWS. But, Mr. Stanley, at what point in time was the authorization—which year was the authorization that authorized construction at an estimated cost of $2.5 billion?

Mr. STANLEY. It was the late 1960's. I believe it was in 1969.

Senator ANDREWS. So in 1969—and we will define this further for the record—in your judgment this project was authorized, the full 103 miles——

Mr. STANLEY. It was 98 at the time.

Senator ANDREWS. Well, 98 at that point in time. And it was said it would cost $2.5 billion. Now, in constant 1969 dollars, which would give you the inflation figure now, what would be the figure now?

Mr. STANLEY. I do not think it would be much in excess of $5 billion in constant 1969 dollars.

Ms. TURNER. Well, our estimate without inflation would be $3.5 billion in constant 1969 dollars.

Senator ANDREWS. That is what you are saying is $3.5 billion, but Mr. Stanley just said that the authorization was for $2.5 billion.

Now, some way or another we have got to find out what the authorization contemplated. What we are looking for is information that we can take to the floor and make a positive argument, hopefully, for the additional moneys. And if indeed and in fact this was authorized at such and so a level in 1969, and if constant dollars in 1986 present a total cost of $9.4 billion, that is one thing; because you are saying that the Metrorail System cost has inflated—at least that is the way I read this chart—from its inception to the $9.4 billion because of inflation.

Now, there are constants we get in inflation and that is why I wanted to check the numbers because the inflation that you are ascribing to WMATA seems excessive to me, and we have already received testimony that instead of a $3.5 billion starting point, it is a $2.5 billion starting point.

We can define that better for the record, but the starting point is 1969.

Ms. TURNER. That is correct.

Senator ANDREWS. Your chart shows $3.5 billion. Mr. Stanley shows $2.5 billion. We will find out which it is. Our staff can find out, or your staff can find out and we will provide for the record at this point in time what that constant dollar would go to. The Stark-Harris authorization, I am told, was for $1.7 billion.

Ms. TURNER. That is correct.

Mr. Chairman, I think where the confusion comes in is that we are not talking about authorizations but we are talking about the total authorizations taking the system through 103 miles.

I have a chart here that I think will support our position.

Senator ANDREWS. But wasn't Stark-Harris done in 1979 for $1.7 billion?

Ms. TURNER. That is right, and that was $1.7 billion.

Senator ANDREWS. And that included their estimate of inflation at that point in time?

Ms. TURNER. That is correct.

Senator ANDREWS. I just wanted to level off the playing field. My apologies for interrupting you. We will get these figures in so we know where they come out.

Please proceed.

Ms. TURNER. Certainly. And we do want to submit this chart for the record, because we believe that it does lay out from the beginning of the construction program to full completion, based on our estimates, the cost and the inflation factor. So we will submit that for the record.

[The information follows:]

SUMMARY OF INCREASES TO SYSTEM COST ESTIMATES
(in millions of dollars)

	Miles of System	System Completion Date	System Cost w/o Inflation	 Escalation	 Total
January 1969 Est.	98	Dec. 1979	$1,959	$536	$2,495
November 1970 Est. (Funding delay; Mid-City Line Realignment; increased estimates for equipment, utilities, & underpinning)	98	Dec. 1979	2,125	855	2,980
November 1974 Est. (Railroad Agreements, Revised Rock Tunnel Design, Strikes, and Inflation)	98	July 1981	2,598	1,855	4,454
December 1973 Est. (Funding Delays & Inflation, Increase in system size and scope, eg., elevators for the handicapped, extension to Shady Grove, Arlington Cemetery Station, and additional parking spaces and station entrances.	101	July 1987	3,350	3,472	6,832
January 1980 Est. (Inflation and funding delays)	101	July 1989	3,435	4,754	8,200
May 1985 Est. (Revised F Route Alignment to Branch Avenue, Stretch-out of Federal funding.)	103	1997	3,472	5,909	9,381

STARK-HARRIS AUTHORIZATION

Ms. TURNER. As I was about to say, Mr. Chairman, we recognize that transit has expanded in the United States and many more systems are now competing for Federal dollars. The Stark-Harris appropriations have been stretched out in order to meet the shared goal of improving the quality of public transit throughout the Nation and most recently the goals of reducing the Federal deficit.

The middle years of the Stark-Harris authorization projected a maximum of construction activity supported by appropriations approaching some $400 million per year. Although we are at that stage in our construction program, we recognize the need for reductions in our Federal appropriations and have taken the initiative to reduce our appropriation request accordingly.

But appropriation reductions do result in cost escalation and that is one of the reasons we need to plan on consistent and stable Federal funding. Let me give you an example. And we have a third chart here to show what has happened to the Stark-Harris authorization.

When originally enacted, it was based upon the expenditure of $1.7 billion over the years 1982 to 1987. As you can see, however, less than $1 billion of that has been appropriated and the administration proposes that no more be provided.

Of the $1 billion, a little over half has actually been made available. So after 5 years of a 6-year program, we have received less than one-third of what was originally projected. This clearly in my opinion explains why some of the system cost estimates now exceed the authorization. The major reasons the cost estimates for constructing the full system keep rising are delays in funding and stretched out construction programs.

UMTA CRITERIA

If we were able now to utilize the fiscal years 1985 and 1986 appropriated funds which are being withheld by UMTA, we could take advantage of the favorable bidding climate and the low inflation to reduce those costs.

Mr. Chairman, it is very difficult to maintain the momentum in a construction project and to minimize cost when the rules for receiving Federal funds are constantly changing. The administration continues to impose totally new, different, and frequently unclear requirements for construction programs and, in this case, our program which has been proceeding for some 17 years.

I want to point out that WMATA is not a new start. We are more than ready to meet reasonable requirements. We continue to make every effort to work with the administration. We need to get on with building the system rather than going over the same administrative hurdles or finding new ones in our path.

To do this we need your help, that of the committee, and of the Congress.

BUS AND RAIL OPERATIONS

I would point out that we are proud of Metro, and I think justifiably so. The approved 1987 operating budget stabilizes fares at the same level for the third consecutive year, while we expand our rail service some 9 miles and extend Sunday service to midnight.

The subsidy provided by the local jurisdictions will increase only 5 percent compared to the budget adopted in fiscal year 1986.

Further, the budget establishes a funded depreciation account as a reserve for future replacement and rehabilitation needs. The efficient and cost-effective operation of Metro has resulted in one of the highest revenue to cost recovery ratios in the Nation.

At present on our subway system, we are recovering 68 percent of our operating costs from farebox and other revenues. Our bus lines now recover some 39 percent of cost for an overall cost recovery ratio this year and in the fiscal year 1987 budget of some 52 percent. We thihk that is a statistic we can all be proud of.

The budget reflects our continued emphasis upon improving service while controlling costs and maintaining a responsible, businesslike financial posture.

FEDERAL CITY COUNCIL STUDY

Let me turn just a moment to the Federal City Council study. On March 11, the Federal City Council released an unprecedented long-term financial evaluation of our system. The principal goal of the study was to achieve a regional consensus regarding what the region's total transit costs and revenues are likely to be through the year 2000.

The study examined three aspects of Metro's costs: The annual cost of operating the bus and rail system, the eventual cost of rehabilitating or replacing equipment and facilities, and the cost of constructing the remainder of the rail system. We think it was a good analysis and we welcome it as a management tool.

But one of the most important and significant findings in this report is that when the system has reached the full 103 miles and the level of rail service has doubled, the fiscal burden on the average taxpayer of the area jurisdictions, currently about 2.5 percent of the local governmental budgets, is not going to increase and our 52 percent cost recovery ratio will remain stable.

PROJECTED RAIL REPLACEMENT COSTS

Replacement and modernization costs for items such as escalators, floor tiles, track, signaling equipment, and other projected costs, will reach about $157 million per year in the year 2000 and we are talking about constant dollars.

Those are expected cost increases, and certainly if you project out your rehabilitation and replacement costs in any business you will find that those kind of numbers exist in the outyear.

RAIL RIDERSHIP FORECASTS

There has been much discussion about the ridership estimates in the Federal City Council Study. The Federal City Council Study points out that patronage projections were intended to serve as a tool for projecting total rail and bus revenues. For this reason, very conservative assumptions were used, resulting in what we would consider to be unduly low ridership estimates.

For example, the study projected rail ridership for the year 2000 with the full 103 mile system to be some 530,000 trips per day. In the first week of April, with 60 miles in operation, daily rail ridership was 430,000 trips and we expect to add 20,000 daily riders after the Orange Line is extended this summer. So we expect to reach the Federal City Council figure well before the year 2000.

I might point out that projecting ridership is exceptionally difficult. However, when we recognize the hazard of making multiple assumptions many years in advance of actual operations, we have to be prepared for some adjustment.

The issue really is not whether we are meeting some previously well intentioned but outdated forecast. The issue is whether we are providing the needed and desired transit service. When the trains are full during ruch hour and at lunchtime and high ridership is sustained throughout the day, it seems pointless to argue about past projections.

REGIONAL TAX

Let me just say a word about regional tax. There has been much discussion about regional tax. When the Stark-Harris authorization was passed, this region made a commitment to stable and reliable funding. The region has met its commitment. We have not defaulted in any way. We believe that the region will continue to meet its commitment and we believe that the question of a regional tax is one that is a local issue and one that this region should come to grips with as a local issue.

The Metrorail system has had a profound effect on this region. Approximately 23,500 construction jobs are attributable to the system and related development and more than half of all new jobs in this region are located near transit stations.

REGIONAL TRANSPORTATION NETWORK

In conclusion, Mr. Chairman, let me say that Metrorail is not a panacea for transportation problems of the Washington area, nor was it designed to meet all the transport needs of the region. Even when it is complemented by our extensive network of Metrobus routes, as well as the growing bus service provided by the various local jurisdictions and private enterprise, public transportation as a whole is not intended to be all things to all people.

Transit is an integral part of a comprehensive regional transportation network in which each element plays an important function. We do not expect I–270, the Beltway, or the Shirley Highway to solve all our transportation problems. Instead we work to improve each element, to coordinate the various services and facilities, and to assure that together they can provide an effective system.

I might point out that Metro is not just a subway. It is the Nation's subway. It is the lifeline in this region's economy. It is the basis for a revitalization and transformation of this urban area. It contributes immeasurably to the quality of life here and helps to make the Nation's Capital a city of which we can all be proud.

Washington is the symbol of our Nation, the face we show the world. We want it to be a special place, and Metrorail helps to make it just that.

I would be happy to answer any questions, Mr. Chairman.

PREPARED STATEMENTS

Senator ANDREWS. Thank you, Madam Chairman. We have your complete statement and it will be placed in the record along with a statement from Mr. Stanley.

[The statements follow:]

STATEMENT OF CARMEN E. TURNER

Mr. Chairman and members of the Committee, I appreciate this opportunity to testify before you today, in this eleventh year of Metrorail operations, about the status of the Washington Metropolitan Area Transit Authority, the rail construction program, and our request for appropriations under Stark-Harris legislation to support continuing rail construction.

This will be my third year as General Manager of the Washington Metropolitan Area Transit Authority. I will tell you at the outset that notwithstanding the inherent difficulties of running a transit system as complex as Metro, I enjoy my job. We have, perhaps, the most supportive Board a transportation system could have. We have a dedicated, professional and loyal workforce that runs our buses and trains like clockwork. And we have a product -- the transportation of millions of Americans -- in which I take tremendous pride. As we have extended our rail system to 60 miles, as our ridership grows, as our cost-recovery continues to improve, and as we take creative steps to reduce our construction costs, you will find the people at Metro -- from the bus drivers to the contract officers -- making even more improvements in the future. And I am looking forward to opening service to Vienna this summer. Metro is truly making a difference in improving the quality of urban life in this region. I will talk further about these successes later.

One of my greatest challenges as General Manager has been to maintain the momentum of our construction program. In order to meet that objective, we must assure that we receive sufficient funds to keep construction going at a reasonable pace. We recognize and appreciate the severity of the financial problems facing this nation, and we have been and will continue to contribute our share in alleviating those problems. However, we are concerned that mass transportation, and particularly Washington Metro have been targeted by this administration for an excessive and disproportionate share of that burden.

WMATA was scheduled to have received the full $1.7 billion authorized under Stark-Harris by FY 1987. To date less than $1 billion of this total has been appropriated and WMATA has received only about half of the amounts appropriated. Only last year, the administration established planning guidance of $275 million as the funding level for FY 1987. It was on the basis of this guidance that we negotiated the regional construction agreement which we call the Fourth Interim Capital Contributions Agreement.

We recognize that even the $275 million for FY 1987 established last year may be more than we can reasonably expect in these times of tight budgeting. Therefore, in order to meet our continuing construction needs, we are asking Congress to appropriate $250 million in FY 1987. We believe that this amount is necessary to maintain reasonable construction schedules, to hold together the team of experts required to undertake such a complex project, and to accommodate the legitimate transportation needs of Maryland, Virginia, and the District of Columbia, which encompass the eight separate local governmental jurisdictions that make up the WMATA compact.

We believe, Mr. Chairman, that the Congress, the administration, and WMATA all have the same objective: to provide the best possible coordinated transportation network for the Washington metropolitan area, including high quality, safe and reliable public transportation. We recognize that we may have different strategies for achieving that objective, but with your help in appropriating FY 1987 funding for continued Metrorail construction we believe that we will be moving toward accomplishing that objective.

Last year, when appearing before this Committee, the UMTA administrator stated that "this Administration affirms its commitment to complete funding under the Stark-Harris Authorization." We were very pleased when the administrator indicated recently in testimony before the House District Subcommittee on Government Operations and Metropolitan Affairs that he believed that there would be an FY 1987 appropriation for WMATA rail construction. We were also gratified to find that he had signed a petition calling for continued Federal support for construction of the full 103-mile Adopted Regional System. We fully agree with both these sentiments and hope that he will support them in this hearing.

CONSTRUCTION PROGRAM

On this map (Chart 1) I would like to show you the full 103-mile system, and the 89.5 miles of that total which could be built with the Stark-Harris authorization. The map shows, at its farthest extents on all lines, the full Adopted Regional System. We are already operating the Red Line from Shady Grove to Silver Spring, the Yellow Line from Gallery Place to Huntington, the Blue Line from Addison Road to National Airport, and the Orange Line from New Carrollton to Ballston, and will open the remaining 9 miles of the Orange Line to Vienna one month from today. Currently construction is under way on the Red

Line from Silver Spring to Wheaton, on the inner Green Line between U Street and Gallery Place and from Waterfront to Anacostia, and on extending the Yellow Line from King Street to Van Dorn. We have just broken ground on the Prince Georges portion of the Green Line which will eventually extend from Fort Totten to Greenbelt. These areas, in which construction is now ongoing, constitute the portions of the full Adopted Regional System which were defined in ICCA-IV to be funded using the Stark-Harris authorization. Just recently, I was pleased to participate in the "holing through" ceremony as the tunnels from Wheaton and from Forest Glen were connected. I am heartened by our construction progress, but concerned that without the continued availability of Federal funds, the construction program will be severely disrupted.

There has been substantial discussion about "operable segments" and "usable facilities." It certainly has always been WMATA's goal to build only segments which could operate and facilities which are usable. The difference in point of view does not relate to whether what we build is usable or operable, but to the sequence in which we build and the level of funding which is assumed to be available for the construction.

The National Capital Transportation Act of 1965 which created Metro and the National Capital Transportation Amendments of 1979 (the Stark-Harris authorization) are both predicated upon the construction of the Adopted Regional System and multi-year funding, not small segments to be funded over one or two years. Thus our construction program is designed to take advantage of cost saving opportunities whenever they arise, within that system.

One way that we try to minimize cost increases is to move a project when it is ready to go. Thus, if we have agreed with UMTA that we will build three miles of the Red Line with a given grant and property becomes available for the third mile out, if we receive a good bid, we go ahead and construct that part while we work to remove impediments to building the inner segments. If we had waited for all the law suits in Tenleytown and Friendship Heights to be settled before we built the Grosvenor station, it would have cost twice what it did. Yet we are charged with "costing money" by building the station too early. Quite the contrary, I believe this represents sound business judgment, and we should be praised for saving money by building when the conditions were propitious.

I would also like to discuss the Waterfront Station. That station is part of our Adopted Regional System. It was intended to be constructed using multi-year authorizations and continuing appropriations. No one has ever quarrelled with the propriety of a station at Waterfront.

Construction was proceeding as planned on the Anacostia segment, of which that station was a part, when a Federal judge ruled that Federal environmental procedures required a whole new public hearing and decision process on the remainder of the line. In retrospect, we should have paid closer attention to procedural details. As a result of the court ruling, construction was halted while we carefully followed the complex new process, and costs mounted as construction was delayed. We finally decided on the line location, using the open and documented process prescribed. Any deviation, such as consulting first with Federal officials, would have been contrary to the open public procedure, and would have jeopardized the resolution of pending litigation. Waterfront Station was built in 1974 for $16 million. Today, Mr. Chairman, Waterfront would cost us $30 million to build -- almost twice the actual cost. Once again, Mr. Chairman, a sound business decision.

As a result of our most recent guidance from the Administration, on Thursday, March 27, the WMATA Board of Directors adopted in principle, and sent to the jurisdictions for their approval, a construction plan which would, we believe, meet the UMTA requirements that the only Federal contribution to Metrorail construction would be the FY 1985 and FY 1986 appropriations, and that funds would be applied only to segments which could be brought to revenue operations using the resources identified in the plan. We are close to achieving the agreement of all jurisdictions on this plan. The two year appropriation limit makes this especially difficult since the FY 1985 and FY 1986 funds do not provide sufficient funds to carry out a construction program consistent with the regional plan, which provides for substantial construction of the Green Line in the District of Columbia and Prince George's County. It would be unfair to our citizens and destructive to the regional coalition necessary to operate Metro, for construction in one of the region's most transit dependent areas not to proceed. They have been contributing to the construction of the system from the beginning and we must build their line.

In order to accommodate the required construction program and to guarantee the construction of operable segments, we propose to reprogram funds which would otherwise have been used for important bus and rail rehabilitation and replacement projects, thereby delaying those projects, and we are requesting that local jurisdictions commit now to make available the match for expected future Federal appropriations. This is an interim arrangement to underpin the rail construction program pending the availability of FY 1987 funds. We recognize that it puts us at great risk. Without the FY 1987 appropriation, *these critical projects* would be forfeited. This proposed plan has forced us to make some very tough choices, within the limited resources available, between urgently needed projects, and has required the jurisdictions to take a substantial risk in advancing future year match. It also involves the sacrifice of projects critical to each jurisdiction, as well as extra funding provided to Metro earlier than planned. To accomplish this plan we will need: (1) the full cooperation of UMTA in an expedited review and approval, including resolution of issues pertaining to a full funding contract; (2) a Letter of No Prejudice so that additional funds advanced now by the local jurisdictions can be used later as local match for future appropriations; and (3) agreement that funds from other sources used to underpin the construction program will be released for the delayed critically needed projects upon receipt of the FY 1987 appropriation. We believe that we have reached agreement with UMTA on these matters. This regional plan provides for construction of the full 89.5 miles within Stark-Harris as set out in ICCA-IV. The plan has three integral parts.

In the first year of this plan, funds would be reprogrammed from other projects, which would be delayed, and local jurisdictions would commit now to make available the match for the FY 1987 Federal appropriation level included in ICCA-IV. The aggregation of these funds would permit operable segments to be built to Wheaton, to Van Dorn, from U Street to Anacostia, and from Fort Totten to Prince George's Plaza. Receipt of the FY 1987 Federal funds allows us to use the already committed funds as the local match and to ask for an advance commitment of FY 1988 match from the jurisdictions. The FY 1987 appropriation and the FY 1988 local match, also covered by a Letter of No Prejudice, would allow construction to College Park. This appropriation would also allow us to undertake some of the important projects which had been delayed. Receipt of the FY 1988 appropriation enables us to repeat the process to build to Greenbelt. Together the three phases represent a comprehensive construction program. The $250 million FY 1987 construction appropriation which we are requesting from Congress supports this extended plan.

COSTS OF DELAY

Over the past 17 years the Metrorail construction program, originally planned to be completed in 10 years, has been subjected to numerous delays due to such factors as alignment changes, the introduction of an extensive public hearing process, substantial litigation, a complex approval process involving numerous Federal agencies ranging from the Fine Arts Commission to the Architect of the Capitol, design changes necessitated by unexpected conditions, lower than planned appropriations, and delays in the release of appropriated funds. Combined with double digit inflation, these delays are the primary reasons that the costs of constructing the rail system keep climbing. Chart 2 shows that for the $9.4 billion which we estimate to be the total cost of constructing the full system, about $3.5 billion is for bricks, mortar, steel, and equipment. Almost twice that amount, $5.9 billion, is due to inflation, almost all resulting from delays.

As transit has expanded in the United States, and as more systems have competed for limited Federal dollars, Stark-Harris appropriations have been stretched out in order to meet the shared goal of improving the quality of public transit throughout the nation and most recently the goals of reducing the Federal deficit. The middle years of the Stark-Harris authorization projected a maximum of construction activity supported by appropriations approaching $400 million per year. Although we are at that stage in our construction program, we recognize the need for reductions in our Federal appropriations, and have taken the initiative to reduce our appropriation request accordingly. But appropriation reductions do result in cost escalation, and that is one of the reasons we need to plan on consistent and stable Federal funding levels.

Let me give you an example. Chart 3 shows what has happened to the Stark-Harris authorization. When originally enacted, it was based upon the expenditure of $1.7 billion over the years 1982 to 1987 as depicted. As you can see, however, less than $1 billion of that has been appropriated and the Administration proposes that no more be provided. And of the $1 billion, a little over half has actually been made available. So after 5 years of a 6 year program, we have received less than 1/3 of what was originally projected. This clearly explains why the system cost estimates now exceed that authorization. The major reasons the cost estimates for constructing the full system keep rising are delays in funding and a stretched out construction program. It would be particularly valuable right now to be able to utilize the FY 1985 and FY 1986 appropriated funds to take advantage of the favorable bidding climate and low inflation to reduce those costs.

Mr. Chairman, it is very difficult to maintain momentum in a construction project and to minimize costs when the rules for receiving funds are constantly changing. The Administration continues to impose totally new, different and frequently unclear requirements for a construction program which has been proceding for 17 years. WMATA is not a new start.

We are more than ready to meet reasonable requirements. We continue to make every effort to work with the Administration. We need, however, to get on with building the system, rather than going over the same administrative hurdles or finding new ones in our path. To do this, we need your help - that of this Committee and of the Congress.

STATUS

Mr. Chairman, I am, I believe, justifiably proud of Metro, of what we have accomplished, and of the major positive effect we have had upon the Washington metropolitan area. Both the construction of the system and its operation are widely considered to be exemplary.

The FY 1987 WMATA operating budget currently under review by the jurisdictions stabilizes fares at the same level for the third consecutive year. While we will expand our rail service by opening 9 new miles and will be extending Sunday rail service to midnight, the subsidy provided by the local jurisdictions will increase only 5% compared to the budget adopted for FY 1986. Further the budget establishes a funded depreciation account as a reserve for future replacement and rehabilitation needs.

The efficient and cost-effective operation of Metro has resulted in one of the highest cost-recovery ratios, our revenues compared to our costs, in the nation. At present on our subway system we are recovering 68% of operating costs. On our bus lines we now recover 39% of costs for an overall cost recovery ratio this year and in our FY 1987 budget of 52%. That Mr. Chairman, is a statistic of which we are proud. This budget reflects our continued emphasis upon improving service while controlling costs and maintaining a responsible and business-like financial posture.

As a result of what we have done, transit service here is enthusiastically accepted by the public. As you can see from Chart 4, over the last 10 years, rail ridership has grown dramatically as we have opened various portions of the system. We now carry 430,000 passenger trips per day on rail and bus ridership has increased slightly. Soon after we open our new rail service to Vienna this summer, we will provide nearly one million trips every weekday on both bus and rail, thereby removing as many as 200,000 cars each day from our congested roads, saving substantial sums on road construction and maintenance, as well as improving the quality of our urban life.

All this is occurring not just because we are building and operating the system, but because we are making it more attractive, safer, and more reliable. Visitors marvel at the cleanliness of our stations, trains, and buses. Chart 5 shows the injuries of any sort, including slips, falls, and twisted ankles, to passengers for every million passengers we carry. Our safety on both bus and rail has improved constantly. And the same can be said of the reliability of our service. Chart 6 shows how many miles a rail car or bus travels between service interruptions -- a problem which causes a substantial delay or removal of the vehicle from service. You can see that we are always doing better. With your permission, Mr. Chairman, I would like to submit copies of these and other charts I use in this statement for the Record.

FEDERAL CITY COUNCIL STUDY

On March 11, the Federal City Council released an unprecedented long-term financial evaluation of our system. The principal goal of the study was "to achieve a regional consensus regarding what the region's total transit costs and revenues are likely to be through the year 2000." The study examined three aspects of Metro's costs: the annual cost of operating the bus and rail system, the eventual cost of rehabilitating or replacing equipment and facilities, and the cost of constructing the remainder of the rail system. We welcome that analysis as a planning and management tool.

One of the most significant findings in this report is that when the system has reached the full 103 miles and the level of rail service has doubled, the fiscal burden on the average taxpayer of the area jurisdictions, currently about 2.5% of the local governmental budgets, is not going to increase, and our 52% cost recovery will remain stable. Replacement and modernization costs for items such as escalators, floor tiles, track, and signalling are projected to reach $157 million per year in the year 2000 and are expected cost increases that any transit system, in fact, any business -- such as a phone company, a trucking firm, or any manufacturing facility -- would experience with age. Our goal is to meet or reduce these future costs through improved maintenance and an aggressive fiscal plan that acknowledges our responsibility and the continued Federal partnership. With the new depreciation reserve we have already started to do that.

There has been much discussion about the ridership estimates in the FCC study. As the FCC report points out, the patronage projections were "intended to serve as a tool for projecting total rail and bus revenue." For this reason, very conservative assumptions were used, resulting in what we would consider to be unduly low ridership estimates. For example, the study projected rail ridership for the year 2000, with the full 103-mile system in place, of only 537,000 per day. In the first week of April, with 60 miles in operation, daily rail ridership was 430,000, and we expect to add 20,000 daily riders after the Orange Line is extended this summer. So we expect to reach the FCC figure well before the year 2000 and before we complete the entire system.

Projecting ridership is exceptionally difficult, however, and we recognize the hazard of making multiple assumptions many years in advance of actual operations. We are often taken to task for not meeting the overly optimistic assumptions of planners 20 years ago who projected vastly different population and job levels and distributions than have actually come about. Yet the recently opened Red Line extension has attained ridership levels well in excess of all our expectations and predictions - so much so that we receive complaints that trains depart Shady Grove with all the seats taken, and are full by the time they leave Twinbrook. The issue, really, is not whether we are meeting some previous well-intentioned but out-dated forecast. The issue is whether we are providing a needed and desired transit service. When the trains are full during rush hours and at lunch time, and high ridership is sustained throughout the day, it seems pointless to argue about past projections. We are clearly doing what the system was intended to do. We are carrying people - a total of 22 million trips on bus and rail last month.

REGIONAL TAX

Let me address the regional tax issue. In enacting the Stark-Harris authorization, the Congress required that a "stable and reliable" source of funding for future Metro costs be established. Each jurisdiction demonstrated, through existing or new legislation at the local or state level, that it had the capacity and an identified source of revenues to cover its contribution to WMATA. DOT reviewed these provisions and certified that WMATA did indeed have a "stable and reliable" funding mechanism. WMATA is a regional compact which for two decades has recognized and appreciated the unique needs of Maryland, Virginia, the District of Columbia, and the eight local jurisdictions with often conflicting transportation priorities. Despite these differences, the member jurisdictions have never failed to meet their obligations to subsidize operations, nor have we ever failed to provide local match for any Federal grant. Yet this administration persists in attempting to usurp our legitimate local prerogative by demanding that we establish a dedicated regional tax.

This region may someday pass a regional tax. However, it seems to me, Mr. Chairman, that so long as we meet our obligations, how we do so is a local matter.

IMPACT OF THE SYSTEM

Metrorail has had a profound effect upon not only the transportation, but also the economy and development of the Washington metropolitan area. Approximately 23,500 construction jobs are attributable to the system and related development, and more than half of all new jobs in the region are located near transit stations. I am proud that we pioneered and today are a model for joint development efforts, and continue to search for ways to optimize the public-private partnership that is the essence of our system.

Nearly 500 commercial projects, representing a private investment exceeding $2 billion, have been started near rail stations, and at least $5 billion in additional development is on the drawing boards. Over the last 5 years 41% of all office development and 36% of all non-residential development in the region has occurred at Metro stations. A recent study indicated that development at Metrorail station sites in Virginia alone will produce $660 million in additional state tax revenue and will create 34,000 new jobs, 15.7 million additional square feet of office and retail space, 2,300 new hotel rooms, and 8,800 residential units.

Beyond the statistics, we can all see the revitalization which Metro has brought to this region. The rebirth of downtown -- the Connecticut Connection, Metro Center, and others -- the construction at each station along the Orange Line in Virginia, the vast development on Rockville Pike, and the new offices in Bethesda and Silver Spring are evidence of the enormous economic power of Metrorail. Today construction cranes surround stations as thousands of square feet of commercial space are built. The investment which is made in Metro is an investment in the economy of this region and therefore also in the continued economic strength of the nation.

CONCLUSION

Mr. Chairman, Metrorail is not a panacea for the transportation problems of the Washington area. Nor was it designed to meet all the transport needs of this region. Even when it is complemented by our extensive network of Metrobus routes, as well as the growing bus services provided by various local jurisdictions and private enterprise, public transportation as a whole is not intended to be all things for all people. Transit is an integral part of a comprehensive regional transportation network in which each element plays an important function. We do not expect I-270, the beltway, or the Shirley Highway to solve all our transportation problems. Instead we work to improve each element, to coordinate the various services and facilities, and to assure that together they provide an effective system.

We believe that we are doing our part at Metro to make public transportation an important and useful part of that system. Metro is healthy, and our steadily increasing ridership and broad public support are evidence to the critical nature of our service. With reliability and safety continuously improving, with fares held constant, with operating costs growing only slightly as the system expands, we believe that we are doing our job and doing it well. With the help of the administration and the continued support of the Congress we will do even better.

But we cannot do it as effectively as possible in the face of constantly changing funding levels and Federal requirements. In March, 1975, Department of Transportation Secretary William T. Coleman issued a comprehensive Statement of National Transportation Policy. In that policy, he said, "We should seek balanced reform of the Federal regulatory process - not deregulation, sudden chaotic changes or abrupt policy reversals. We must also realize that financial commitments have been made under existing regulatory ground rules and we should be cautious in the application of theoretical solutions." Focusing on transit, the policy stated, "Federal policy for urban transportation should at once respond to locally determined transportation goals and serve such national objectives as the enhancement of our cities as vital commercial and cultural centers, control of air pollution, conservation of energy, access to transportation for all citizens and particularly the disadvantaged, facilitation of full employment and more rational use of land. Because mass transit serves all these objectives, simultaneously and well, it merits strong Federal as well as State and local support."

Mr. Chairman, Metrorail is not just a subway. It is the nation's subway. It is a lifeline of this region's economy. It is the basis for a revitalization and transformation of this urban area. It contributes immeasurably to the quality of life here, and helps to make the nation's capital a city of which we can all be proud. Washington is the symbol of our nation, the face we show the world. We want it to be a special place, and metrorail helps to make it just that.

Mr. Chairman, the Congress has recognized this. Maryland, Virginia and the District as well as their local governmental bodies have joined together to make it work. Every previous administration has reaffirmed the commitment to a Federal and local partnership to build Metrorail. We hope that our recent agreements with the Administration will result in the immediate release of the funds appropriated by the Congress to build the system, and that we will work together in a positive approach toward finding ways, within budgetary financial constraints, to continue construction of the rail system. Finally, Mr. Chairman, we ask the Congress to look favorably upon our request for an FY 1987 appropriation of $250 million.

CHART 1

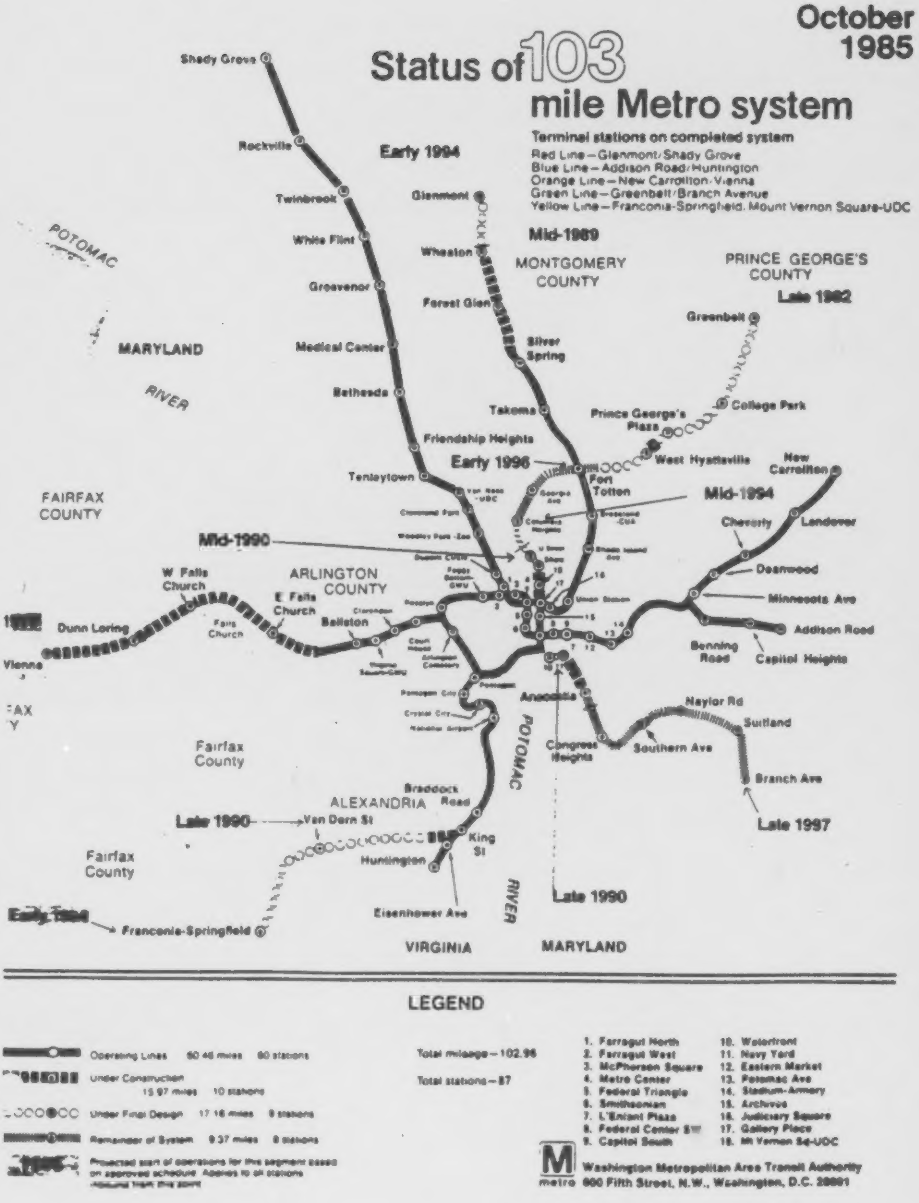

October
1985
Status of 103
mile Metro system
Terminal stations on completed system
Red Line—Glenmont/Shady Grove
Blue Line—Addison Road/Huntington
Orange Line—New Carrollton-Vienna
Green Line—Greenbelt/Branch Avenue
Yellow Line—Franconia-Springfield, Mount Vernon Square-UDC
Shady Grove
Rockville
Twinbrook
White Flint
Grosvenor
Medical Center
Bethesda
Friendship Heights
Tenleytown
Van Ness-UDC
Cleveland Park
Woodley Park-Zoo
Dupont Circle
Early 1994
Glenmont
Wheaton
Forest Glen
Silver Spring
Takoma
Mid-1989
MONTGOMERY COUNTY
PRINCE GEORGE'S COUNTY
Late 1992
Greenbelt
College Park
Prince George's Plaza
West Hyattsville
Early 1996
Fort Totten
Georgia Ave
Columbia Heights
Brookland-CUA
Mid-1994
U Street
Shaw
Rhode Island Ave
Union Station
New Carrollton
Landover
Cheverly
Deanwood
Minnesota Ave
Addison Road
Benning Road
Capitol Heights
POTOMAC
MARYLAND
RIVER
FAIRFAX COUNTY
Mid-1990
W Falls Church
E Falls Church
Falls Church
ARLINGTON COUNTY
Dunn Loring
Vienna
Ballston
Clarendon
Court House
Rosslyn
Foggy Bottom-GWU
Virginia Square-GMU
Arlington Cemetery
Pentagon
Pentagon City
Crystal City
National Airport
Anacostia
Congress Heights
Southern Ave
Naylor Rd
Suitland
Branch Ave
Late 1997
Fairfax County
ALEXANDRIA
Braddock Road
Late 1990
Van Dorn St
King St
Huntington
Eisenhower Ave
POTOMAC RIVER
Late 1990
Fairfax County
Franconia-Springfield
VIRGINIA
MARYLAND
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18
LEGEND
Operating Lines 60.46 miles 60 stations
Under Construction 15.97 miles 10 stations
Under Final Design 17.16 miles 9 stations
Remainder of System 9.37 miles 8 stations
Projected start of operations for this segment based on approved schedule. Applies to all stations inbound from this point.
Total mileage—102.96
Total stations—87
1. Farragut North
2. Farragut West
3. McPherson Square
4. Metro Center
5. Federal Triangle
6. Smithsonian
7. L'Enfant Plaza
8. Federal Center SW
9. Capitol South
10. Waterfront
11. Navy Yard
12. Eastern Market
13. Potomac Ave
14. Stadium-Armory
15. Archives
16. Judiciary Square
17. Gallery Place
18. Mt Vernon Sq-UDC
M metro
Washington Metropolitan Area Transit Authority
600 Fifth Street, N.W., Washington, D.C. 20001

CHART 2

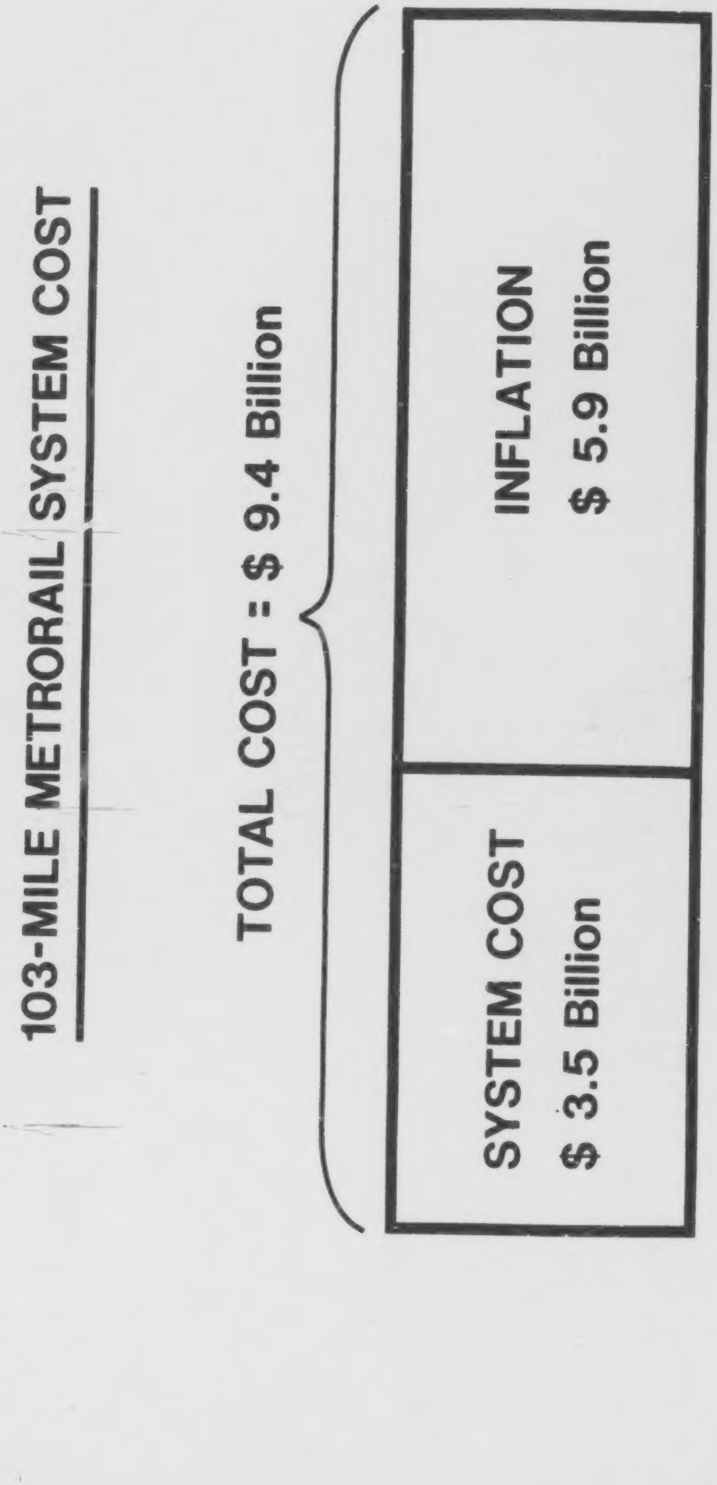

103-MILE METRORAIL SYSTEM COST
TOTAL COST = $ 9.4 Billion
SYSTEM COST
$ 3.5 Billion
INFLATION
$ 5.9 Billion

CHART 3

STARK - HARRIS LEGISLATION

FUNDING HISTORY

$ IN MILLIONS

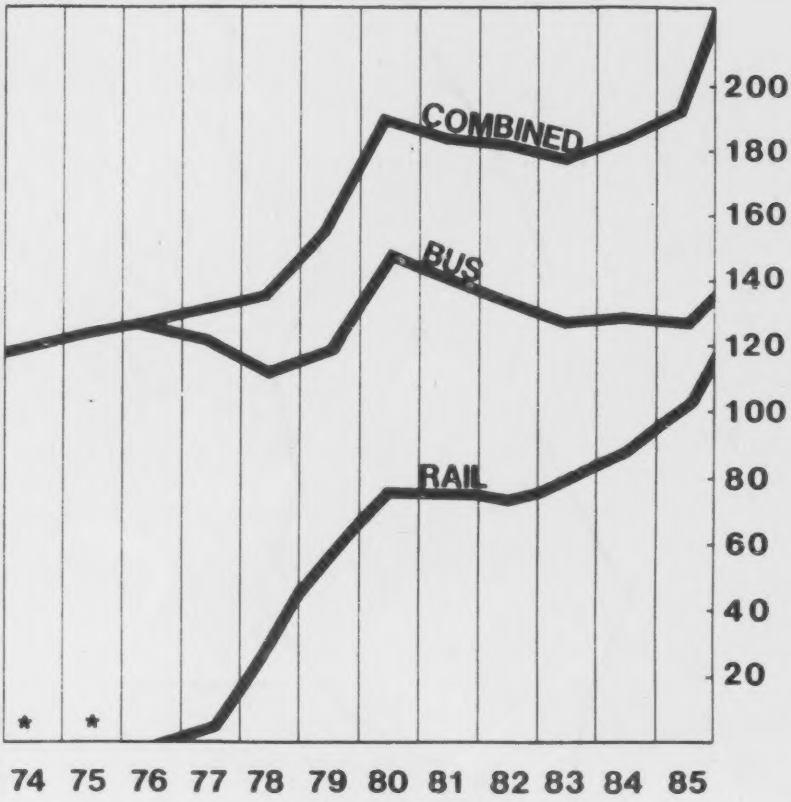
	1982	1983	1984	1985	1986	1987	TOTAL
STARK-HARRIS AUTHORIZED	200	350	375	375	325	75	1,700
APPROPRIATED	0	240	250	250	227*	0	967
RECEIVED	0	240	250	75	0	0	565

*REDUCED TO $217 MILLION BY GRAMM - RUDMAN - HOLLINGS

CHART 4

TRANSIT RIDERSHIP

FY-1974 THRU FY-1985



* BEFORE RAIL OPERATION

Note: Right margin of chart reflects Calendar 1985 ridership.

CHART 5

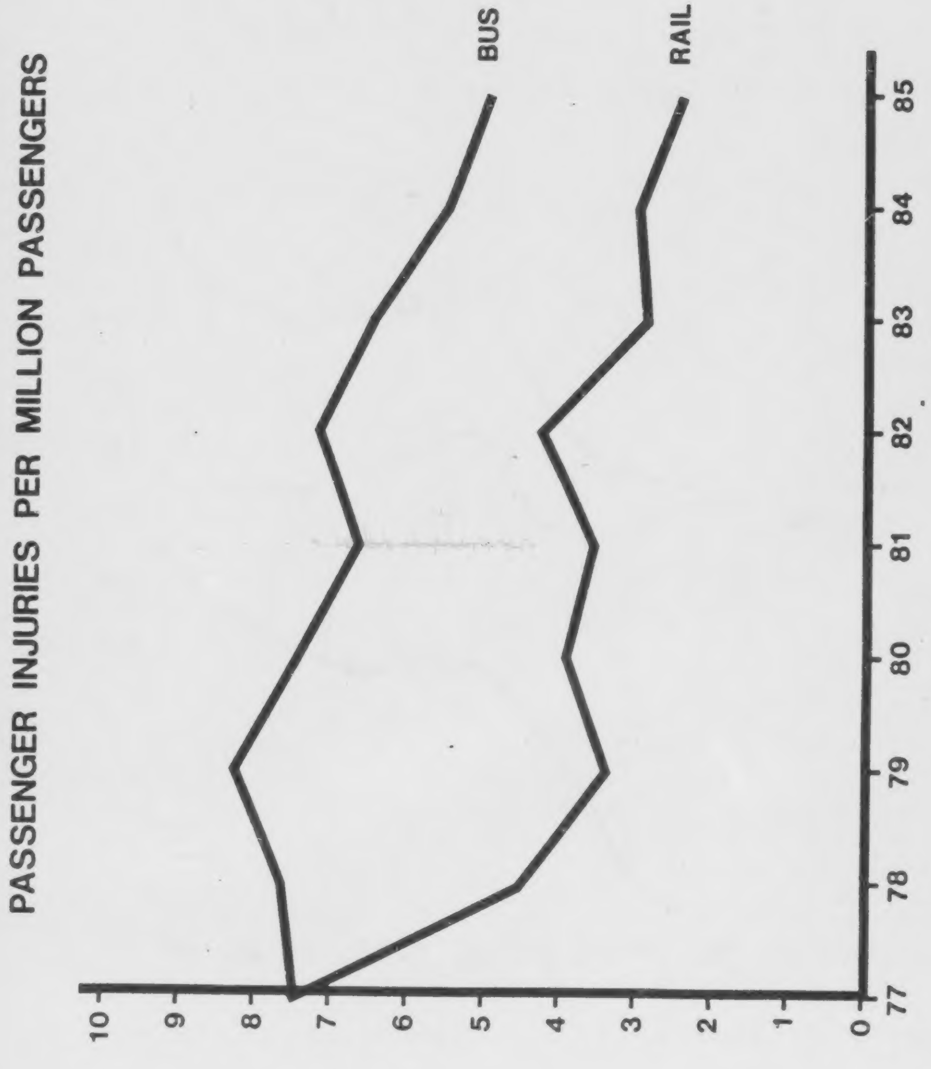
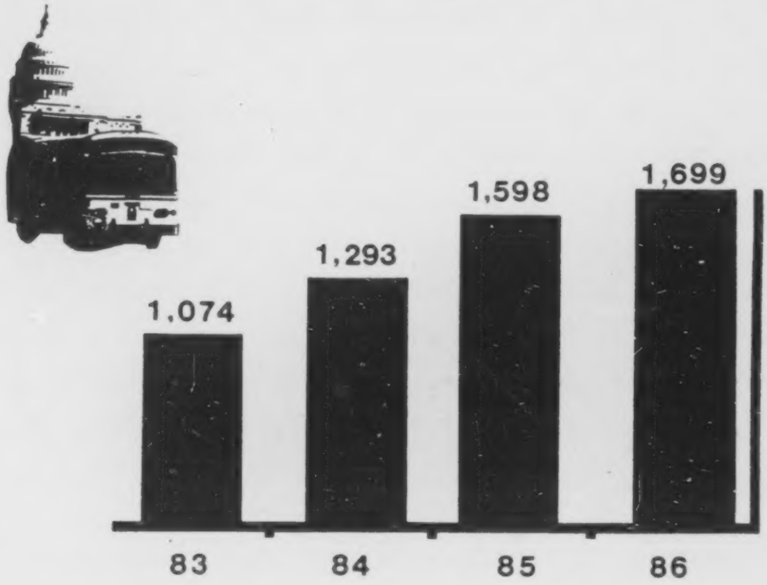
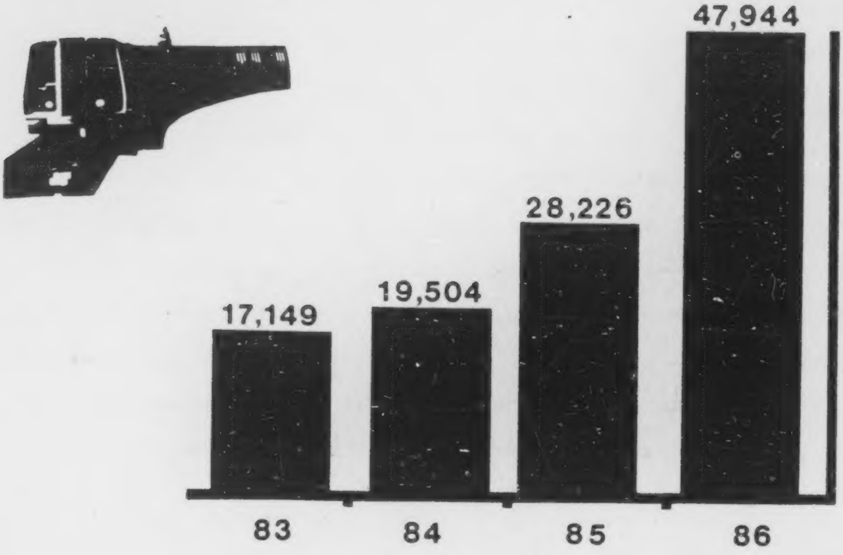

PASSENGER INJURIES PER MILLION PASSENGERS
BUS
RAIL
0
1
2
3
4
5
6
7
8
9
10
77
78
79
80
81
82
83
84
85

CHART 6

RELIABILITY

MEASURED IN MILES BETWEEN SERVICE INTERRUPTIONS





STATEMENT OF RALPH L. STANLEY

Mr. Chairman, and distinguished members of the Subcommittee, I am pleased to have this opportunity to appear before you today to discuss funding issues involving the Washington, D.C. area Metrorail system. We at the Department of Transportation are concerned about this issue, not only in light of the Federal deficit and the Gramm-Rudman-Hollings legislation, but more specifically in the context of our experience with the funding of the system to date. I would thus like to share with you some of the concerns I have raised with WMATA officials and others over the past year or so about the funding of Metrorail. I also want to bring to your attention the results of a Federal City Council study on the projected costs of transit in this area through the year 2000. A copy of the FCC study will be made available to this subcommittee.

Before I proceed, let me briefly outline the Administration's budget proposal for fiscal year 1987. The Administration has proposed a 1986 rescission of all existing discretionary funding for new systems and extensions, except for those few cases where full funding contracts exist. For Washington Metro, under the Stark-Harris legislation, no rescission is proposed but no additional Federal funding has been requested. WMATA has received more Federal construction dollars than all other new systems, $4.4 billion to date. Furthermore, WMATA still has not developed a plan for covering out year costs that it will have to pay. In our view, since all other new start funding is proposed to be terminated, it would be inequitable to continue funding the Washington Metrorail system. Moreover, this recommendation, like that for construction of other new start systems across the country, is required in order to meet the budget deficit levels mandated by Gramm-Rudman-Hollings.

The Federal Role

In this connection, I think it would be useful to begin by addressing the matter of the "Federal commitment" to funding completion of the 103 mile Metro system. There has been much public discussion about the "Federal commitment" of five Presidents and eleven Congresses to the completion of the rail system, and it is true that there have been a number of public endorsements of completion of the system. But when the system was endorsed by President Nixon in 1970, the estimated cost of the rail system was $2.9 billion. By the time of President Ford's endorsement in 1975, the total cost estimate escalated to $4.6 billion. When President Carter signed the Stark-Harris legislation for Metro funding in 1979, it was understood that the cost to complete the system was $7.5 billion. Less than six months later, the cost to complete the system was estimated to be in excess of $9 billion. Today, the estimate to complete the new 103 mile system exceeds $12.5 billion.

Given this dramatic increase in the estimated cost to complete the system - from $2.9 billion to $12.5 billion - we think a closer look at what Federal officials have said about this "Federal commitment" is called for. Let me cite for you a few of the remarks of Administration officials who are said to have committed to the full rail system. In 1975, Secretary Coleman said "my recommendations ... will be based on my belief that all possible sources of funding in the region should be exhausted before the Federal taxpayer is asked to make further contributions to Metro." UMTA Administrator Patricelli, in 1976, stated the commitment as follows: "The Federal Government, reviewing all the other demands being made upon it, has set a ceiling of $4.67 billion on system costs in which it will participate." Finally, in 1979, President Carter predicated his public endorsement on the assurance of the WMATA Board that funds made available under

Stark-Harris were all that would be needed to complete the system: "The Federal Government has now placed its total monetary commitment to Metro on the table."

We know today, however, that the remaining Stark-Harris authorization is insufficient to complete the 103 mile system. To date, $4.4 billion in Federal funds have been spent on Metrorail construction. Not included in this amount is the Federal Government payment of over $500 million in bond interest payments. The Government is also committed to pay $664.7 million in bond principal payments and $1.4 billion in interest payments by 2012. In addition, some $19 million a year is provided in Federal operating assistance and $38 million in Federal capital funding from our formula grants program. We believe that this amount of Federal funding for WMATA has been more than generous. Clearly, it is time to focus on the local commitment to the system.

Operable Segments

It is in this context of escalating costs over the past decade, the large Federal contribution to Metro to date, and the repeatedly expressed concerns of Federal transportation officials, that we have asked WMATA to identify how it will spend its available Federal funding before we will release those funds. I have stressed to WMATA officials that an UMTA Administrator must not approve grants for elements of a construction project which do not stand alone as useable facilities, unless there are other funds available to bring them on line. This is true for all UMTA-funded projects, and should apply to Metro construction as well. Simply put, you cannot begin something which you do not have the money to finish. This is the problem I have when considering WMATA's current proposed rail construction program, and judging from the reaction of WMATA officials and the Washington press in discussing this principle, perhaps this should be made clearer.

This "operable segment" requirement has been set forth by the Department and recognized by WMATA officials for a number of years. In 1978, former Secretary Adams stated that "the segments to be built should be useable and contiguous and should emphasize the areas of highest ridership." Before the House Appropriations Committee in 1979, former General Manager Lutz, in response to a question by Congressman Duncan, indicated that it was WMATA's "basic view...to try and get operable segments constructed."

When we commenced negotiations with WMATA for a full funding contract for an 89-mile system to utilize the remaining Stark-Harris authorization last spring, I withheld approval of the Fiscal Year 1985 grant program thinking that it would be folded into the full funding contract. I sincerely believed this would be achieved in calendar year 1985, but it was not. The 1985 program alone does not sufficiently advance work on construction elements approved in earlier grants so as to make them operable. This deficiency would have been rectified in the framework of a full funding contract utilizing all of the remaining Stark-Harris authorization. The Gramm-Rudman-Hollings legislation was then enacted and affected Fiscal Year 1987 funding deliberations. The WMATA Board reacted by suggesting there was no further possibility of full funding contract negotiations. However, the full funding contract format will still be used and remains the standard UMTA management approach for major construction projects regardless of how much money is appropriated. The scope of the intended work must reflect the realities of the current funds available.

WMATA must identify those segments of the proposed system which can be completed with currently available resources. It appears to me that WMATA has two choices. First, it can utilize Federal funds for completion of those elements in its current schedule, provided it assures UMTA that any funding required to complete the segments begun beyond that appropriated by Congress will be provided solely from non-Federal sources. This is the practice of other cities which do have dedicated local funding. Second, if WMATA cannot or chooses not to provide UMTA with such assurances, it can amend the construction schedule and utilize Federal funds for construction activities only on those segments which can be brought into revenue service with currently available funds. Either of these approaches will ensure that available Federal funds will produce useable facilities.

At this time, however, there is no apparent source of working capital to proceed under the first approach nor does it appear that the WMATA jurisdictions are anxious to guarantee the substantially increased local share liability implicit in this approach. And if the second option is not followed, I have no choice but to limit grant approvals to those selected elements of WMATA's program which can result in useable facilities, and hold off on those which patently cannot.

There have been instances in the past where the WMATA Board authorized the construction of facilities which have stood idle, for years in some cases, while other pressing mass transportation problems have gone unaddressed. Though in some cases unforeseen difficulties were the cause of this problem, in other they were not. In any event, we cannot let it happen in the future.

It appears, however, that WMATA is on the verge of continuing this illogical practice. If WMATA were to proceed with its current construction schedule, then only the Red Line from Silver Spring to Wheaton would be brought into revenue service with available resources. Left partially built, inoperable, and without funds to complete would be the Green Line to U Street, the Green Line to Anacostia, the Green Line from Fort Totten to Greenbelt, and the Yellow Line to Van Dorn Street. These incomplete routes would require an additional $928 million to be put into revenue service. WMATA's plan for constructing the system, the ICCA-IV, encourages, in fact mandates, use of scarce capital resources in this manner. No other areas are permitted to construct rail systems in such a piecemeal fashion. Simply put, WMATA cannot continue to construct the system in this fashion.

The Completion of the Inner Green Line

There is something the Board can do, however. On January 9, 1986, the WMATA Board wrote President Reagan a letter and stated that "this proposed withdrawal of funding [in the 1987 budget] could not come at a worse time, because of its impact on the Green Line. After many years of difficult planning choices and legal challenges, all the decisions are finally made. At long last, we are ready to go ahead with this rail line, which will serve the heaviest concentration of riders in the regions. Many of these citizens are some of the most economically disadvantaged and transit dependent people in the area. It is essential, as a matter of equity, that this line go forward." We at DOT also recognize that the inner Green Line is the most cost-effective portion of the system and serves the most transit dependent citizens in the region. We could not agree more, and are pleased that WMATA is ready to proceed with its construction.

In fact, our review of WMATA's own cost figures and construction schedule indicates that the Authority can, if it chooses, complete the inner Green Line from U Street to Anacostia with less than the total amount of Federal funds already appropriated by Congress and thus currently available.

Therefore, if Metrorail service to highly transit dependent areas is truly a priority of the WMATA Board, as its letter to President Reagan indicates, there is absolutely no question that the Green Line from U Street to Anacostia should be completed using already available budget authority from fiscal years 1985 and 1986. In doing so, the needs of the most transit dependent citizens of this area could be met quickly and within the bounds of Federal requirements.

The Federal City Council Study

I have been addressing issues involving the cost of constructing the Metrorail system. Let me now turn to an equally significant matter - the cost of operating and maintaining the system. In this connection, I want to call to your attention a report released on March 11, 1986, by the Washington, D.C. Federal City Council. Entitled "Transit In the Nation's Capital: What Lies Ahead?," it is a study of projected transit service, costs, and financial impacts on the region through the year 2000. The Federal City Council is a nonprofit, nonpartisan organization dedicated to improving this area. The study, funded by UMTA, was conducted by a regional task force which included representatives from local, State, and Federal Governments, as well as from WMATA and the private sector.

The Council's study found that the total annual WMATA operating and maintenance deficit (costs net of revenues) will rise, in constant 1986 dollars, from $211.5 million today to $256.5 million in the year 2000. Another key finding of the study is that the cost of replacing and rehabilitating equipment and facilities will increase dramatically as the system ages. By the year 2000, when portions of the Metrorail system will be 25 years old, the annual amount required for rehabilitation and replacement of Metrorail and bus will be $157.5 million, in constant 1986 dollars, compared to $42 million today, a 400 percent increase. These findings mean that the recurring annual cost to public entities of operating, maintaining, and rehabilitating the WMATA system will rise from $253.4 million today to $414 million in the year 2000 - a 63 percent increase.

UMTA has a program for rehabilitation and replacement of rail systems under its section 3 discretionary program, but it applies only to systems that were built without major Federal funding - and therefore does not apply to WMATA. Thus, even if this existing rehabilitation program continues, the Washington area cannot expect any Federal funds from that program to pay for these activities.

Another significant aspect of the study is that the unfunded costs of building additional segments of the rail system are extremely high. In 1979, President Carter was assured that the Stark-Harris authorization of $1.7 billion would complete the then 101-mile system. We now know that at least an additional $2 billion will be needed to complete the proposed 103-mile system. Absent additional Federal funding beyond the amounts appropriated to date, local governments will be faced with an average annual cost of $300 million through the year 1993 to fund the scheduled Metrorail construction program.

In sum, the report notes that State and local governments in this area are paying about $270 million annually for WMATA services. This payment will rise to nearly $600 million annually by 1993, more than doubling the payment in eight years. Through the year 2000, cumulative State and local payments will be approximately $6.5 billion.

Assured Local Funding

Mr. Chairman, given the history of Federal funding to date, the deficit crisis we now face, and the projected costs of operating, maintaining, and constructing the Metro bus and rail system as highlighted in the FCC study, it is clear that WMATA must seek an assured source of local funding to complete the Metro system - and to help pay for its operation and maintenance. Others have come to the same conclusion. In response to the congressional concern about local sources of funding as expressed by Congressman Conte in March 1977, WMATA General Manager Lutz testified that: "The Authority is investigating new sources of funding which will supplement fare box revenue...[t]he Authority is convinced that ultimately an earmarked or dedicated tax[es] is essential to supplement the financial program of the Authority."

Secretary Adams stated his concerns to WMATA officials at a conference in 1978 when he said: "This brings me back to the message I have delivered to this assembly before, and no doubt will deliver again, because I believe it is absolutely essential to the future of Metro. We must have a dedicated local funding source to support public transit construction, maintenance and operation. I believe such action on your part is imperative. It is the next important step. It is inevitable if WMATA is to succeed and Metro is to continue."

During the House Appropriations hearings in March 1979, Congress reiterated its concern about the lack of action to implement a local source of funding and a financial plan. This time Congressman Duncan voiced the frustration and WMATA General Manager Lutz responded that "at this point in our history, some source of dedicated tax, at least within the major jurisdictions, is a very important goal for the fiscal health of the program and good management."

The Senate Report accompanying the Stark-Harris legislation, in discussing how the "stable and reliable" funding requirement in that bill would be met, states that "[s]uggestions have included increases in sales taxes, increases in gasoline taxes, and implementation of a payroll tax in the District of Columbia. While the committee makes no recommendation as to how the stable and reliable revenues should be obtained, it agrees with DOT and the House of Representatives that a stable and reliable source of revenue is needed in order to make decisions about Metrorail financing."

Most recently, in the Congressional Appropriations hearings in 1984 and 1985, Congressman William Lehman and Senator Lawton Chiles persistently pressed WMATA General Manager Turner regarding the need for a regional tax for transit. WMATA's position after more than ten years of consideration was to assign to a Board Committee the responsibility to explore the issue of a regional tax. After promising in March of 1984 to give its official position by July 1, 1984, the WMATA General Manager responded in March 1985 that after one year "[c]onsiderable data has been developed and many meetings have been held, but as of this date (March 1985), the Board has taken no official position on the issue."

It is urgent that WMATA address the cost of completing the planned system as well as the implications of the projected costs of maintaining the completed system as shown in the FCC study. How are those costs going to be paid? To put these costs in scale, UMTA staff estimated that funding the approximately $400 million non-Federal payment to WMATA in the year 2000 would require either about a 40-cent per gallon tax on gasoline or a 1 and 2/3rds percent retail sales tax in the region. This should not suggest that we are endorsing new taxes in these amounts, but rather demonstrates the magnitude of the problem.

This is an economically strong and growing area that includes four of the wealthiest counties in the country. Other areas have adopted local funding sources to support their mass transit needs.

However, little has been done to alert the local taxpayer of the long-term financial implications of Metro. If the Board cannot even take an official position after ten years, when will an assured local funding source be established? The Congress and the Executive Branch have demonstrated both good will and financial support for Metro, while the WMATA Board has ignored the widely recognized need for assured local funding. I only wish the WMATA Board had shown the same regional unity and commitment to secure local assured funds as it has demonstrated in obtaining Federal funds. I cannot emphasize enough the fact that there are very large out year expenses that WMATA must begin budgeting for now. The Federal Government cannot be expected to cover these costs. WMATA must recognize these costs and be prepared to pay for them.

In addition to establishing an assured level of local funding, we also encourage WMATA to consider a range of innovative financing techniques that have been used by other cities. WMATA has been active in this area, but more can be done. These techniques include development fees, where a developer would be required to pay a fee as a condition of permit approval and the fees would be used for transit benefits. Or WMATA could negotiate with developers to agree to share the cost of transit improvements that will benefit their property, as has been done in New York City. Another interesting concept is the benefit assessment district where increased property values and taxes attributed to transit improvements can be earmarked for transit use. There are a number of other concepts that cities are looking at. In short, WMATA should be considering every possible financing mechanism in addition to securing an assured level of local funding. We will be glad to provide them with studies and information that we have developed about useful financing techniques.

Mr. Chairman, that concludes my prepared statement. I would be pleased to answer any question that you might have on our proposal.

FULL FUNDING AGREEMENT

Senator ANDREWS. What is the status of negotiations between Metro and UMTA on a full-funding agreement?

Ms. TURNER. We have been working on a two-phase program. It is the revised construction plan that is underpinned by a full-funding agreement. We think we are making substantial progress in both areas, Mr. Chairman.

Senator ANDREWS. How about you, Mr. Stanley?

Mr. STANLEY. I would concur that there has been progress. Last week I was directed by the Secretary to spend as much time as possible in the next several weeks to try and reach an agreement consistent with the principles outlined in the budget. I would indicate that with that direction from the Secretary, we are working toward that end.

But no agreement has been reached or agreed to by the administration as of this date.

Senator ANDREWS. When do you expect to have a signed full-funding agreement between Metro and UMTA?

Mr. STANLEY. Again, I would try and reach an agreement as soon as possible in accordance with the Secretary's direction. There are several outstanding issues. We are reviewing the agreement that the Board has not yet adopted, but has adopted in principle, concurrently with the Board and the jurisdictions' consideration of it so that the questions we may have are as minimal as possible.

FUNDING FOR THE 103-MILE SYSTEM

Senator ANDREWS. There is general agreement that existing Stark-Harris authorizations are sufficient to finance completion of approximately 89½ miles of the Metrorail system. Financing alternatives for the remainder of your proposed 103-mile system are much more uncertain to say the least.

In recognition of this fact, this committee directed WMATA and UMTA in Report 99–152 accompanying the 1986 appropriations bill to develop a plan before the 1987 budget hearing for system alternatives and the necessary funding authorization.

Has such a plan been developed?

Ms. TURNER. Mr. Chairman, this region developed a plan to cover the balance of Stark-Harris that would bring in the 89.5 miles. That plan was signed off by the local jurisdictions and was forwarded to the administration.

When that plan was completed, we were then told that we needed a full-funding agreement. We were in the process of negotiating a full-funding agreement when we found out that we were zeroed out of the President's budget in 1987.

We are back to the drawing board with this revised plan that I have just mentioned and the region is now reviewing that. It is our hope that we can bring that to closure. We are also in the process as we just mentioned, of negotiating a full-funding agreement with UMTA to underpin the second plan.

Senator Andrews. What you are telling us is that you have no plan to present to the committee at this point in time to go beyond the 89.5-mile figure.

Ms. Turner. That is correct. We have a plan for the balance of Stark-Harris. That was part of our Fourth Interim Capital Contributions Agreement and the region signed off on that. We have been working so hard to get the portion of that plan which covers the Stark-Harris portion of the authorization approved that we have not dealt with that portion of the plan beyond 89.5 miles.

But there is a plan in place. It takes us through the balance of Stark-Harris. It takes us then to the completion of the full 103-mile system. It has projected appropriation levels and shows how that construction program can go forward, and I can submit that to the committee.

[Clerk's note.—The subcommittee has in its files the Fourth Interim Capital Contributions Agreement and the Supplemental Memorandum of Understanding.]

CONTINGENCY ACCOUNT

Senator Andrews. Fine. We would be glad to have it.

Ms. Turner, last year you indicated before the subcommittee that a proposed 25-percent reduction in funding for Metro construction would be taken from areas such as the contingency account.

What is the contingency account?

Ms. Turner. In our revised plan—and I have to speak about the new plan now—we have a 7-percent contingency in each project. We do not carry a contingency line in this plan.

I might point out that this plan has forced us to virtually mortgage every dollar we have to underpin the construction program based on the guidance from UMTA to build revenue-generating lines within a 2-year appropriation, fiscal years 1985 and 1986. So that plan has changed substantially since the last time I testified before this committee and there is not in this plan a contingency line for 1985 and 1986, but a 7-percent contingency in each project.

Senator Andrews. From what sources are funds for this contingency account taken?

Ms. Turner. It is part of the grant, Mr. Chairman.

Senator Andrews. How much money is presently in the contingency account?

[Pause.]

Ms. Turner. About $40 million.

Senator Andrews. About $40 million.

How much is set aside annually for the contingency account?

Ms. Turner. No; that is the full amount of contingency money we have. That money is set aside to cover claims. This is a major public works project and we have to set aside funding for claims and for other costs that are unforeseen.

Senator Andrews. Mr. Stanley, were you aware of this contingency account?

Mr. STANLEY. In the negotiations we have been asking the questions about the amount available in the contingency. My understanding was prior to the development of the most recent plan, there was a contingency account in each project and then over and above that for the overall construction program, an additional 10-percent contingency.

But in our negotiations, as Mrs. Turner has indicated, right now there is a 7-percent contingency built into each construction cost estimate. We will have a project management oversight firm to develop, through an audit of WMATA, a total picture on what is available in the contingency fund.

Ms. TURNER. Mr. Chairman, I would like to say that we believe we have provided UMTA with all the information about available funding. This plan that we have on the table now strips every grant and identifies every dollar that we have. And we believe they have that information. We believe that this plan represents not only the commitment of all available resources through old grants and through the Stark-Harris authorization, but also puts us at risk for grants that were not originally intended to support the construction program.

And the only contingency is the 7 percent in each one of the project estimates. We do put some contingency back in in the years 1987 and 1988, about $10 million. That is certainly not a large amount of money to underpin a construction program, one of the largest public works programs in this country.

Senator ANDREWS. Well, it is and resources, of course, are strapped with Gramm-Rudman and with a number of other challenges that we have now that nobody envisioned earlier. So we have to look at other areas for funding.

Ms. TURNER. That is correct.

VALUE RECAPTURE

Senator ANDREWS. Has Metro made any efforts in the past year to recapture a portion of the increased value of property around Metrorail stations?

Ms. TURNER. Mr. Chairman, we are limited. Recognize that Metro is a combination of two States and the District of Columbia, all of which have very, very different laws and regulations in terms of taxing and revenue-generating opportunities.

We have maximized our opportunities within the parameters of the UMTA legislation and the local laws for joint development. I might point out that we are a pioneer in joint development and serve as a model for other joint development programs. Clearly, we are looking for ways in which to expand that.

Senator ANDREWS. The point is, Ms. Chairman, we have a little problem here because we are asking the taxpayers all over this country to fund a Metrorail system here in the District and in the suburban areas. You have testified to this committee that we are getting a fantastic increase in value in the land around these terminals.

Ms. TURNER. That is correct.

Senator ANDREWS. That is fine. But then why don't we recapture some of this financial increase in value for the taxpayers of this country in a desire to get this project finished?

We are looking desperately for funds. You say that the demand is there to finish the project. You say that there is a vast increase in somebody's net worth, a number of somebody's no doubt, coming about.

Why don't we recapture some of this and help to pay for the completion of this system by the recapturing of the increased value because the Metrorail system is there?

Ms. TURNER. I think that that increase is being recaptured. It is being recaptured by the local jurisdictions who then pay the Metro bill. The question is whether or not it is recaptured by the local jurisdictions who then pick up the costs for Metro, or whether there is a direct payment to the Transit Authority.

ALTERNATIVE FUNDING SOURCES

Senator ANDREWS. The committee understands that Metro has underway a study of alternative sources of income, alternative sources of funding, shall we say, including a look at whether Metro should encourage private developers to pay for some Metro construction in exchange for the profitable new land rights they have near these stations.

Now, what is the status of the study?

Ms. TURNER. Well, we are obviously looking at every opportunity to underpin and finance the rail construction program. Each one of the items you describe is a part of that study. That study is now being formalized so that we can begin to identify certain work tasks.

Mr. Boleyn has a major effort going on with several financial institutions and we are clearly interested in creative financing, but we also have to take into consideration the local jurisdictions, the local laws, and our ability to change those laws as we go forward in this plan.

Senator ANDREWS. I think one of the things that you have to realize is that this particular subcommittee, if Gramm-Rudman stays in place, may get a directive by August or September to make major cuts in this bill.

Now, the question is: Do we cut back national airline flight schedules by 15 percent? That is part of the equation. Do we cut back Coast Guard interdiction of drugs by 50 percent? Do we, as we were mandated to last year when going to the floor to save $500 million, cut $300 million out of the FAA, $200 million out of the Coast Guard?

We have to get this money someplace, and that is why it would help if you could find out if there is a way to recapture some of this increased value around these stations because that might be the only source of funding WMATA has.

There are not the votes in the Congress, if we cannot overcome Gramm-Rudman, to fund a subway system on the back of the national airways system that competes directly with WMATA for dollars, or on the backs of the Coast Guard. And we cannot do it if we have to cut back, which we may well have to do, 25 percent of the highway building construction in this country, for example.

So we are caught between a rock and a hard place and we would rather have you know up front. That is why we would like to see what kind of recapture we can get from these sources.

Now, Mr. Stanley——

Ms. TURNER. Mr. Chairman, may I just make a comment?

Senator ANDREWS. Sure. I did not vote for Gramm-Rudman, incidentally. I think it is the most wrong-headed piece of legislation that ever came along, but it is here.

Ms. TURNER. I would not want to give you the impression that we are not sensitive to the plight of the Congress and the Federal deficit. We believe that we have taken some steps. We reduced our request from what we initially thought would be the request in 1987 and on out for the construction program, but let me say something else.

Value capture is one way of generating revenue and we certainly want to look at that, and I would not suggest to you that we would not want to move to capture as much revenue for the system as possible. We believe there are other ways in which to institute creative financing mechanisms, and I would suggest to you that we want to look at all of them and we want to come back to you and show that we are as aggressive in resolving this problem as we should be.

I guess my concern is that we not limit our effort to one narrow window of creative financing.

Senator ANDREWS. No way do we want to limit it.

Ms. TURNER. We are looking at a very broad picture, and we want to come back and say not only have we looked at whether or not we can recapture some of the increased revenue as a result of Metro stations, but are there other things that we can do?

We are prepared to carry our share of the responsibility and we want you to know that we accept our responsibility, that we know there is a deficit. I am a grandmother with two little grandaughters and I do not want them 10 years from now to carry this burden.

So we are working with you.

REMAINING STARK-HARRIS FUNDS

Senator ANDREWS. We understand that. The trouble is we have an intriguing challenge because there are only so many dollars to go around.

Mr. Stanley, if a full-funding agreement is reached on fiscal years 1985 and 1986 funding, could you foresee supporting further funding under Stark-Harris for Metro?

Mr. STANLEY. The decision to request a zero dollar appropriation under Stark-Harris was our effort to meet the deficit reduction required by the Gramm-Rudman-Hollings legislation. Our projections show no further appropriations requests under Stark-Harris.

One thing I would like to comment on is that the schedule, in terms of funding for any of the given fiscal years, is not included in Stark-Harris legislation. The funding schedule that does exist is a locally adopted plan based on a hoped-for appropriations schedule. When the Stark-Harris authorization was passed, it was not limited in any way by a 3-, 5-, or 7-year period. It is no-year funding.

Again, I would expect that until a compromise is reached on ways to reach the goals of Gramm-Rudman-Hollings, we would not support any further Federal funding.

Ms. TURNER. Mr. Chairman, let me say that I would be hard pressed to think that the Congress passed the Stark-Harris authorization without some indication of how that money would play out over a given period of time.

In the report language there is at least a skeleton of a construction schedule. Clearly it has changed over time, but there was a schedule that did support the Authority's position on Stark-Harris and the $1.7 billion.

Mr. STANLEY. Again, the easiest—I do not want to take the committee's time—the easiest way to do that would be to have given a time-certain expiration in the authorizing legislation.

Senator ANDREWS. The point is I would hate to cause either one of you any sleepless nights. But if you take a look at the hundreds of billions of dollars' worth of authorizations that are now on the law books of this Nation that will never be funded, it might cause you a little concern. The problem is we simply do not have the resources to fully fund all the authorizations that are around.

It would be nice but the funds are just not there, and they are there in less, shall we say, abundance now than they have been in the past. The Appropriations Committees generally have been able to appropriate half, probably, of the authorizations, but now we are down to where we have to appropriate much less of the authorizations and that is really the problem we have.

Ms. TURNER. I would like to say that we appreciate that and we are most grateful to the Appropriations Committee for its support in the past. We understand the difficulty that you face and we have already had sleepless nights about those authorizations and the status of this construction program.

SUBMITTED QUESTIONS

Senator ANDREWS. I have a number of other questions for the record, as do Senators Chiles and D'Amato, and other senators may well have questions for the record.

[The following questions were not asked at the hearing, but were submitted for response for the record:]

Questions Submitted by Senator Andrews

FULL FUNDING AGREEMENT

SENATOR ANDREWS: Have the fiscal year (FY) 1985 and 1986 funds appropriated by the Congress for Metro construction been released to the Washington Metropolitan Area Transit Authority (WMATA) by the Urban Mass Transportation Administration (UMTA)?

ANSWER: Of the $467.2 million of federal funds appropriated for FY 1985 and FY 1986, only $75.0 million has been released by UMTA. UMTA has stated that it will release the remaining $392.2 million upon execution of a Full-Funding agreement between UMTA and WMATA.

SENATOR ANDREWS: Are there still major issues to be resolved before a full funding agreement is consummated? If so, what?

ANSWER: Although the WMATA staff has worked through the language of a draft Full Funding Agreement with UMTA staff, we have been told that certain issues must be resolved by the UMTA Administrator personally. We believe that the current draft does resolve major issues.

SENATOR ANDREWS: How do the funding uncertainties brought about by Gramm-Rudman-Hollings affect the execution of a Full Funding Agreement?

ANSWER: The funding uncertainties of Gramm-Rudman-Hollings have not had a direct impact on attempts to negotiate a Full Funding Agreement. Attempts to reach agreement were impacted, however, by (1) the Administration's failure to recommend a FY 1987 appropriation for WMATA; and (2) UMTA's requirement that our construction program be revised to build operable segments within the FY 1985 and 1986 appropriation levels.

SENATOR ANDREWS: Has the withholding of 1985 and 1986 funds necessitated any adjustments in Metro's construction schedule? If to what?

ANSWER: WMATA's construction program is being delayed pending receipt of the 1985 and 1986 portions of the Stark-Harris appropriation. The impact on the construction schedule cannot be determined until funding dates are known.

SENATOR ANDREWS: Have any proposed contracting lettings been postponed due to the inability to use these funds?

ANSWER: Contracts that are being delayed are as follows:

B-Line	
1B309T	Forest Glen Station Finish
1B0103	Wheaton Tailtracks
1B3101	Wheaton Finish
1Z4080	Trackwork Installation
	Trackwork Procurement
Inner F-Line	
1F0032	Navy Yard Station (Partl)
1F0033	Navy Yard East Tunnel
1F0034	Navy Yard Chiller Plant
	Trackwork Procurement

J-Line
TJ002T Van Dorn
Outer E-Line
TE0062 West Hyattsville

SENATOR ANDREWS: Have any new grant requirements been imposed by UMTA on Metro since the initial delay in the release of funds? If so, what?

ANSWER: The initial delay in the release of the FY 1985 appropriated funds was the UMTA requirement for a plan and prioritization of work to be done within the Stark-Harris authorization. This plan (ICCA-IV) was developed in using the guidelines for annual funding levels provided by the Administration and was completed in August 1984. The plan was approved by the jurisdictions in December 1984.

Subsequent to this, UMTA required the Authority to enter into a full funding contract for those route segments to be funded with Stark-Harris authorizations. The Authority spent several months working on this contract and submitted a proposed contract to UMTA in August 1985. UMTA did not respond to this contract.

The latest set of requirements from UMTA were received in February 1986. The latest mandate was to develop a construction program for operable segments that would be fully funded with only the FY 1985 and FY 1986 appropriations. This requirement sets the construction program back to where we were two years ago: again we are going through a series of intense and difficult negotiations with the jurisdictions represented on our Board of Directors.

SENATOR ANDREWS: Do you expect any such delays to increase the total cost of constructing the Metrorail system? If so, by how much?

ANSWER: The impact on system cost is unknown at this time and is being reviewed. The impact will not be less than current inflation levels.

SENATOR ANDREWS: Will the Full Funding agreement apply to all funds authorized under Stark-Harris or just the already appropriated 1985 and 1986 funds?

ANSWER: The Full Funding Agreement will apply to 89.5 miles of the ARS and the entire Stark-Harris authorization.

SENATOR ANDREWS: What other sections of the Metrorail system will be covered under the Full Funding Agreement?

ANSWER: The Full Funding Agreement will include the same segments of 89.5 miles of the system that were covered by ICCA-IV:

- Anacostia Station to U-Street Station, N.W.;
- Fort Totten to Prince George's Plaza, College Park, and Greenbelt;
- Silver Spring to Wheaton Station and;
- King Street To Van Dorn Station.

SENATOR ANDREWS: If the Full Funding Agreement is to apply to all Stark-Harris authorizations, how can commitments be made without knowledge of when or if such funds will be appropriated?

ANSWER: The Full Funding Agreement will require immediate release of FY 1985 and FY 1986 appropriations. Completion of remaining segments of 89.5 miles of the system is contingent on receipt of further federal appropriations.

GREEN LINE

SENATOR ANDREWS: Administrator Stanley stated in a February 5 letter to Cleatus Barnett, Chairman of the Metro Board of Directors, that the inner Green Line from U Street to Anacostia can be completed within the budget authority provided for fiscal years 1985 and 1986. Do you agree? How much would completion of this agreement cost?

ANSWER: A new construction program utilizing the 1985 and 1986 federal appropriations was recently developed and is now being reviewed by the local jurisdictions. This plan provides for completion of the Inner Green Route from U Street to Anacostia within these funds. The estimated cost to complete this segment is $230 million.

SENATOR ANDREWS: Will your Full Funding Agreement provide for completion of the Inner Green Line?

ANSWER: The Full Funding Agreement as now drafted proposes completion of the Inner Green Route from U Street to Anacostia.

SENATOR ANDREWS: How much additional funding will be necessary to complete the Outer Green Line?

ANSWER: The estimated cost to complete the Outer Green Route from Fort Totten to Greenbelt is $502.2 million. The new construction program proposed completing this segment in three phases depending on the future appropriations for 1987 and 1988. The 1985 and 1986 appropriation would complete Fort Totten to Prince George's Plaza Station; a $250 million FY 1987 appropriation would complete Prince George's Plaza to College Park Station; and a $250 million FY 1988 appropriation would complete College Park to Greenbelt Station including the Yard.

SENATOR ANDREWS: Will the Full Funding Agreement provide for completion of the Outer Green Line?

ANSWER: The Full Funding Agreement guarantees completion of the Outer Green Line to Prince George's Plaza by using FY 85/FY 86 Federal Appropriation, advanced local match and reprogrammed current available funds. The Agreement further provides for completion of the Outer Green Line to Greenbelt contingent only on receipt of further federal funds.

OPERABLE SEGMENTS

SENATOR ANDREWS: Will FY 1985 and 1986 Appropriations be spent only for operable segments as defined by UMTA and applied to other new start?

ANSWER: The FY 1985 and 1986 Appropriations will be spent only for those operable segments as established by the Authority and agreed to by UMTA. The following is a list of the currently proposed operable segments:

1. Silver Spring to Wheaton (B Route)
2. Gallery Place to U Street (Inner E Route)
3. L'Enfant Plaza to Anacostia (Outer F Route)
4. King Street to Van Dorn (J/H Route)
5. Ft. Totten to Prince George's Plaza (Outer E Route)

SENATOR ANDREWS: Is it your opinion that Metro should be exempted from the requirement to construct operable segments? If so, why?

ANSWER: WMATA has always built in segments designed to be operable, as is evidenced by the plan originally accepted by UMTA and described in ICCA-IV. UMTA's new requirement, however, is that such segments be built not with the total amount available (the Stark-Harris authorization) but with the FY 1985 and 1986 appropriations. Although WMATA believes it has no legal obligation to do so, the program currently under review provides for construction in operable segments, as defined by UMTA.

89.5 - MILE SYSTEM

SENATOR ANDREWS: What does WMATA estimate the shortfall of federal funding necessary to complete the 89.5 mile system to be?

ANSWER: The Authority's new construction program updates the estimated cost to complete 89 miles of the system. The updated estimate is based on contract bids and contract awards plus updated estimates based on section designer's work. The funds remaining in Stark-Harris authorization are sufficient to complete 89.5 miles of the system provided the federal appropriation for 1987 and 1988 are at the $250 million level. Appropriations for annual program budget items such as project management, system start-up and construction insurance would need to continue through the early 1990s until this portion (89.5 miles) of the system is complete. The Stark-Harris authorization is also sufficient to fund these costs.

SENATOR ANDREWS: Will the $77 million shortfall of funds necessary to complete the 89.5 mile system be addressed in Full Funding Agreement?

ANSWER: The $77 million Federal dollars ($96 million total) in FY 1989 shown in the Fourth Interim Capital Contributions Agreement (ICCA-IV) chart was for work beyond the 89.5 miles system. This work is not included in the Full Funding Agreement. These funds were programmed for:

1. Construction - Glenmont Line (B-11a)
2. Real Estate - Springfield/Franconia
3. Construction - Columbia Heights Line (E-2c)
4. Real Estate - Outer F Route

SENATOR ANDREWS: Will the Full Funding Agreement lay out a plan for completion of segments beyond the 89.5 mile system?

ANSWER: The Full Funding Agreement is not intended to include any segments beyond 89.5 miles of the ARS: it will not, however, preclude further construction of the system.

FY 1986 FUNDING LEVEL

SENATOR ANDREWS: For FY 1986 Metro requested $250 million under the Stark-Harris authorization for Metrorail construction. Congress appropriated $227 million in the 1986 continuing resolution, and this amount was further reduced to $217 million by Gramm-Rudman-Hollings. What adjustments in Metro's construction schedule will this reduced funding level necessitate?

ANSWER: The reduced funding level from $250 million to $217 million has not affected Metro's near term construction schedule. The withholding of the 1985 and 1986 funds has delayed some contracts.

COST EFFECTIVENESS OF REMAINING SEGMENTS

SENATOR ANDREWS: Are all of the sections of the Metrorail system that you would construct using 1985 and 1986 funds part of operable segments?

ANSWER: Yes, the new FY 1985-86 construction program proposes completing operable segments as follows:

Silver Spring to Wheaton
U Street to Anacostia
King Street to Van Dorn Street
Fort Totten to Prince George's Plaza

SENATOR ANDREWS: Do you consider the segments in the Full Funding Agreement to be the most cost-effective of the remaining segments in the proposed 103-mile system? If the segments to be constructed using FY 1985 and 1986 funds are not the most cost-effective, what criteria were used to determine that these segments should be constructed before others?

ANSWER: The Alternatives Analysis Study completed in 1978 verified that all the line segments in the Adopted Regional System are cost effective. Of these, the E and F lines were determined to be the most cost effective. The segments in the Full Funding Agreement are the same segments prioritized in the Fourth Interim Capital Contributions Agreement for funding with Stark/Harris authorizations:

- o Silver Spring to Wheaton;
- o U Street to Anacostia;
- o Fort Totten to Greenbelt; and
- o King Street to Van Dorn Street

These segments have been selected based on the UMTA guidance on operable segments, difficult negotiations among the jurisdictions to establish jurisdiction priorities, and construction readiness.

SENATOR ANDREWS: Last year you were unable to provide the Committee with estimates of ridership for future segments because your most recent studies were made several years ago and some of the assumptions used at that time were no longer valid. Have you generated new ridership estimates since last year? If not, why?

ANSWER: A set of ridership forecasts was developed as part of the Federal City Council Study in the report entitled "Transit in the Nation's Capital: What Lies Ahead?" It was produced as a cooperative effort involving federal, state, and local government representatives, the business community, and WMATA staff. The purpose of the study was not to develop a detailed set of ridership estimates; however, a ridership forecast was developed in order to produce estimates of passenger revenue. The model that was used for the study estimated rail ridership at 469,000 daily trips in 1993 with the 89-mile system in operation and at 537,000 daily trips in the year 2000 with the full 103-mile system in operation. The Authority's staff is of the opinion that these figures are very low, and the report even includes language stating that the forecasts were used as a conservative basis for estimating revenue. To put these numbers in context, average daily rail ridership for the month of April 1986 was approximately 436,000 daily trips. The extension of the Orange Line to Vienna in June is expected to produce at least another 20,000 daily trips, for an average daily total of 456,000 trips. If the model's forecast of 469,000 trips by the year 1993 is to be accepted, it would [illegible] that an additional 19 miles of rail and seven years of general ridership growth would produce only 13,000 additional daily trips. To help develop a more realistic set of ridership figures, the Metropolitan Washington Council of Governments will be doing more detailed ridership forecasts using more traditional methods.

SENATOR ANDREWS: Please provide for the record ridership estimates for future Metrorail segments and current ridership for existing segments.

ANSWER: Ridership by segment for the current system is shown on the attached table. Current estimates of future ridership by segment are not available. The study conducted by the Federal City Council produced a forecast of total system ridership, but not station-by-station or segment ridership.

Daily Passenger Boardings by Station as Determined by Metrorail Passenger Surveys

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Station	Nov. 1977	May 1978	May 1979	May 1980	May 1981	May 1982	May 1984	May 1985
Dupont Circle	7,784	10,124	13,617	15,643	14,128	11,628	13,894	16,767
Farragut North	7,950	12,531	12,790	15,087	13,102	16,049	15,150	19,446
Metro Center	10,493	13,704	19,400	18,516	19,608	17,635	17,154	16,550
Gallery Place	2,100	2,505	3,938	4,057	4,141	3,753	5,752	6,938
Judiciary Square	5,490	7,806	7,955	8,527	7,680	7,175	5,576	7,740
Union Station	7,038	9,248	11,386	12,540	10,464	10,836	12,227	11,761
Rhode Island Ave.	5,665	4,753	4,307	4,989	4,226	4,073	4,069	4,891
Brookland	-	3,451	5,204	6,333	5,740	5,538	5,428	5,741
Fort Totten	-	2,969	4,896	5,294	4,481	4,150	3,539	4,363
Takoma	-	2,556	3,873	4,809	4,687	4,137	4,629	5,195
Silver Spring	-	9,121	13,860	16,414	15,533	14,478	14,735	13,445
New Carrollton	-	-	5,715	6,592	6,514	5,886	5,723	5,695
Landover	-	-	2,381	2,815	2,165	2,219	2,300	2,940
Cheverly	-	-	1,344	1,380	1,366	1,162	1,234	1,315
Deanwood	-	-	2,535	2,638	2,016	1,851	2,018	1,909
Minnesota Ave.	-	-	3,689	3,556	2,183	2,305	2,144	2,135
Stadium-Armory	3,956	4,307	4,316	4,094	3,445	2,887	3,178	3,226
Potomac Ave.	2,830	3,384	4,927	4,779	6,753	5,095	5,258	6,383
Eastern Market	2,506	2,662	4,201	4,545	4,519	4,468	4,724	5,074
Capitol South	3,696	5,003	5,392	6,758	6,684	7,429	6,052	7,480
Federal Center SW	2,778	3,604	4,775	5,246	4,645	4,024	4,661	4,928
L'Enfant Plaza	6,154	8,361	11,417	12,929	12,026	11,990	11,393	16,514
Smithsonian	4,060	6,184	8,312	12,427	9,657	9,711	8,305	9,985
Federal Triangle	4,036	4,432	5,660	6,774	6,154	5,960	5,481	6,376
McPherson Square	7,024	8,927	12,836	13,829	13,162	13,218	12,746	13,902
Farragut West	15,167	17,085	23,386	28,891	27,294	25,396	20,354	24,138
Foggy Bottom	6,144	8,104	9,818	13,528	14,394	12,644	11,605	14,928
Rosslyn	11,167	11,725	17,155	12,752	12,241	11,406	11,633	13,856
Arlington Cemetery	140	219	384	362	876	215	416	1,099
Pentagon	10,558	12,775	14,441	16,123	16,365	15,310	17,714	19,838
Pentagon City	1,312	2,068	3,325	3,586	3,136	3,210	2,335	2,821
Crystal City	3,912	5,110	7,554	8,204	7,438	7,667	9,779	10,602
National Airport	2,479	3,305	5,088	5,605	4,619	4,881	4,402	4,497
Court House	-	-	-	2,825	3,034	2,860	3,113	3,673
Clarendon	-	-	-	1,899	2,149	2,064	2,254	2,351
Virginia Square	-	-	-	1,728	2,259	2,212	2,350	2,757
Ballston	-	-	-	9,352	10,250	10,173	10,060	10,239
Benning Road	-	-	-	-	2,497	3,078	2,973	3,050
Capitol Heights	-	-	-	-	1,890	1,965	2,217	2,317
Addison Road	-	-	-	-	2,507	2,964	4,435	3,723
Woodley Park-Zoo	-	-	-	-	-	4,456	4,235	6,461
Cleveland Park	-	-	-	-	-	2,443	2,961	3,870
Van Ness-UDC	-	-	-	-	-	7,651	7,682	6,650
Archives	-	-	-	-	-	-	2,728	3,364
Braddock Road	-	-	-	-	-	-	1,295	2,124
King Street	-	-	-	-	-	-	1,806	2,549
Eisenhower Ave.	-	-	-	-	-	-	981	1,269
Huntington	-	-	-	-	-	-	4,084	6,099

Station	(a) Nov. 1977	(b) May 1978	(c) May 1979	(d) May 1980	(e) May 1981	(f) May 1982	(g) May 1984	(h) May 1985
Tenley Town	-	-	-	-	-	-	-	4,128
Friendship Heights	-	-	-	-	-	-	-	5,674
Bethesda	-	-	-	-	-	-	-	5,011
Medical Center	-	-	-	-	-	-	-	2,715
Grosvenor	-	-	-	-	-	-	-	2,618
White Flint	-	-	-	-	-	-	-	2,199
Twinbrook	-	-	-	-	-	-	-	2,354
Rockville	-	-	-	-	-	-	-	2,140
Shady Grove	-	-	-	-	-	-	-	4,050
Total	134,439	186,033	259,877	305,410	296,028	298,274	308,782	382,864

FY 1987 FUNDING LEVEL

SENATOR ANDREWS: What level of federal funding are you requesting for Metrorail system construction in FY 1987?

ANSWER: The Fourth Interim Capital Contributions Agreement was structured around the Administration's guidelines of a $250 million to $275 million annual appropriation level. The FY 1987 program in the Agreement is based on a $275 million federal funding level; however, in light of the constraints on the federal budget, the Authority has reduced its request to $250 million.

SENATOR ANDREWS: Since 1970, Metro has received more federal transit construction funds than all other new systems combined. In 1986, Metro was appropriated $227,000,000 (Before Gramm-Rudman-Hollings sequestrations) for rail construction, more than twice as much as any other new start city. Given the extremely tight budgetary environment that we must operate within for 1987, how would you convince the United States Senate that Metro merits a level of funding that so greatly exceeds that of any other city?

ANSWER: Washington Metro is a unique governmental and transit institution. It was created by the Congress, initially as a federal agency, and charged with planning, constructing and operating a model transit system for the National Capital area. The system's plans called for a federal, state and local partnership to provide rapid rail transit throughout the capital region. Local and state governments contributed their share of the costs based based upon completion of the Adopted Regional System, not upon actual construction within their boundaries. There has long been a commitment among the federal, state and local governments, each to do its share to complete the system. The funding level Metro has requested is the minimum necessary to allow for the timely, orderly completion of the Metrorail system.

It must be recognized that Washington Metro is absolutely not a "New Start" system. It is absolutely not just like any other city or area currently planning a transit system. Its construction program has long been planned, those plans have long been approved by the Federal, state and local governments, and local funds have been committed based upon those plans.

It is necessary for the Federal Government to maintain the level of funding we have requested, and have received in the past, if we are to keep our commitments and complete the Adopted Regional System in an orderly and cost-effective manner.

SENATOR ANDREWS: What annual level of federal funding is implicit in your planning projections toward completion of the 89.5 mile system? Given this level, when would 89.5 miles be completed?

ANSWER: The annual federal funding levels in our planning projections follows:

Federal Fiscal Years	Millions
1985	$250
1986	217
1987	250
1988	250
1989	40
1990	36
1991	29
1992	20
1993	16

The 89 miles of the system would be completed in late 1992.

SENATOR ANDREWS: What is the impact in terms of total cost and completion date of the 89.5 miles if federal funding in 1987 for Metrorail construction is limited to $217.2 million as proposed by the Senate Budget Committee? $175 million? $100 million?

ANSWER: The new construction program is based on a 1987 federal appropriation of $250 million which would be sufficient to maintain the approved construction schedule for 89 miles of the system. However, completion of the system is dependent on the level of follow-on appropriations for 1988 through system completion in 1992. The levels of federal support required for each year is listed above.

If the 1987 federal appropriation is cut to $217 million, $175 million or $100 million it will probably cause an increase in cost in line with the current inflation levels and also extend the date for completing the system.

FUNDING CUT-OFF

SENATOR ANDREWS: Ms. Turner, the Administration has proposed that no new Metro funding be provided from the Stark-Harris Authorization for FY 1987. What would be the impact on the Metrorail Construction Program if no funding is provided beyond FY 1986?

ANSWER: The new construction program is based on the possibility of no further federal appropriation after 1986. Under such circumstances, 84.8 miles and 76 stations would be completed.

SENATOR ANDREWS: Assuming that FY 1985 and 1986 are released by UMTA, what portions of the Metrorail system could be completed using already appropriated funds? What would be the total mileage of such a system?

ANSWER: The information follows:

	REVENUE MILES	STATIONS
Currently in operation (May 1986)	60.5	60
Ballston to Vienna (Opens June 7, 1986)	9.1	4
New Segments to be completed with 1985 and 1986 funds:		
o Silver Spring	3.2	2
o U Street to Anacostia	4.6	6

o King Street to Van Dorn Street	3.7	1
o Fort Totten to Prince George's Plaza	3.7	31
Total System to be completed with 1985 and 1986 appropriations	84.8	76

SENATOR ANDREWS: In your estimation, would any additional segments of the system beyond those cited be completed if no additional federal funds were forthcoming after 1986? If so, what segments?

ANSWER: No additional segments beyond those cited would be completed if federal funding is cut off after the fiscal 1986 appropriation.

SENATOR ANDREWS: In your estimation, would any of the system beyond 89.5 miles be constructed if no federal funding beyond the Stark-Harris authorizations were provided? If not, why?

ANSWER: It is not clear what could be constructed if federal funding beyond the Stark-Harris authorization was not available. There is a strong local commitment to completion of the 103-mile system, but it would be too great a financial burden on the region to fund the $2 billion needed to fund the last fourteen miles of the system.

SENATOR ANDREWS: What is the total estimated completion cost of the proposed 103-mile system?

ANSWER: The total cost estimate for the 103-mile system is $9.381 billion. UMTA has stated that the system cost exceeds $12 billion. The additional $3 billion is the cost of financing the principal and interest on WMATA's bonds.

SENATOR ANDREWS: Including unappropriated Stark-Harris authorizations, how much funding has been provided for Metrorail construction? How much of this amount is federal funding?

ANSWER: Including the $1.7 billion Stark-Harris authorization and the twenty percent local match, the total funding for Metrorail construction is $7.355 billion. Of this amount $5.062 billion will be federal funding.

SENATOR ANDREWS: For the record, please provide a chart listing by year all federal funding received and for what purpose (include bond guarantees).

ANSWER: A copy of the chart follows.

HISTORY OF FEDERAL APPROPRIATIONS FOR
ALL WMATA PROGRAMS
(in millions of dollars)

	Rail Construction Program						Bus and Rail Capital Improvements Program				Operating 4/ Assistance	Debt Service
	PL91-143 (2/3-1/3)	PL93-87 Handicapped	PL-Add-Ons	(Title 23) Interstate Highway Funds	PL96-184 Stark/Harris	Sub-Total	Section 3	Section 5 (Capital)	Section 9a/9 (Capital)	Subtotal		
Prior to FY 1969	13.0					13.0						
Fiscal Year 1969	43.3					43.8						
1979	126.1					126.1						
1971	180.0					180.0						
1972	188.0					188.0						
1973	174.3					174.3	70.3			70.3		
1974	131.2	13.7	7.4 2/			152.3	9.0			9.0		12.7
1975	90.4	19.3				109.7	--			--	6.9	17.1
1975	68.0	9.5		475.0		552.5	15.8			15.8	11.5	22.2
1977	116.8 1/	6.8		400.0		523.6	17.4			17.4	17.3	19.4
1978	15.4	2.7		124.8 3/		142.9	21.6			21.6	17.8	60.9
1979				276.3		276.3	--			--	23.7	61.3
1980				275.0		275.0	7.5	13.8		21.3	25.7	65.8
1981				275.0		275.0	5.4	8.0		13.4	26.0	55.9
1982				284.7		284.7	8.0	11.4 5/		19.4	23.1	51.6
1983				45.0	240.0	285.0	11.9	7.3	17.9	37.1	18.5	51.7
1984					250.0	250.0			34.2	34.2	18.5	51.7
1985					250.0	250.0 6/			39.3	39.3 6/	18.5	46.2
1986					217.2	217.2			27.1	27.1 7/	18.5 7/	51.7
Total to Date	1,147.0	52.0	7.4	2,155.8	957.2	4,319.4	166.9	40.5	118.5	325.9	226.5	578.2

1/ Includes appropriation for the transition quarter of $26.7 million.
2/ Special Federal appropriation to fund construction of the Arlington Cemetery Station and the Mall entrance to the Smithsonian Station.
3/ $275 million was appropriated but $150.2 million was lost due to delays in completing Alternatives Analysis.
4/ Operating assistance for fiscal years 1975 through 1983 was from Section 5 funding. In FY 1984 and thereafter the funding was from Section 9 funds.
5/ $4.3 million of this amount was from Title 23 funding.
6/ Actual FY 1985 Stark-Harris funds received thru 5/15/86, $75.0 million. Actual FY 1985 Section 9 capital funds received thru 5/15/86, $38.5 million.
7/ No FY 1986 Stark-Harris or Section 9 funds received thru 5/15/86.

CONTINGENCY ACCOUNT

SENATOR ANDREWS: How much is set aside annually for the contingency account?

ANSWER: When programs are initially prepared it is normal practice to set aside 10% of the value of new construction work for contingency in the grant. This reserve is set up to provide funding that may be needed if contract bids are more than the program estimates. It is also used to fund contract claims that may arise and changes that may be required during construction.

SENATOR ANDREWS: Who makes the determination of how much will be placed in the contingency account and when it will be drawn upon.

ANSWER: The decision is made during the establishment of the annual programs by the WMATA staff, local jurisdictions and the Board of Directors. Every major construction project experiences unanticipated design and construction modifications as it progresses. Good management practice is to allow for unpredictable and generally unavoidable events by including a contingency amount in the project cost. Because of this, UMTA requires and WMATA includes a project contingency line item in project grant applications.

When cost estimates are first made, numerous design details which can substantially affect cost are not known. Consequently, a contingency of about 10% is normally provided to account for the initial estimation inaccuracy . Of the 10% contingency, 7% is reserved for design and construction changes necessitated during project execution. Two percent is reserved until bids on individual contracts are awarded to account for variations between estimates and actual bids, and the remaining 1% is provided to accommodate claims, delays, strikes, and similar costs.

As construction on any particular project is completed, funds must still be reserved for project closeout and remaining claims settlement. Thus, a portion of the contingency account is maintained until all administrative and legal issues have been resolved.

SENATOR ANDREWS: Why is a contingency account necessary if Congress is providing annual appropriations for Metrorail construction?

ANSWER: Each annual program is established and estimated to stand by itself - independent of future years appropriations. Therefore, a contingency account must be set up to cover reasonable risks of exceeding bids and estimates and to make allowance for necessary modifications to contracts (i.e., changed conditions, claims, etc.) for the life of the contract. This is an UMTA requirement and is consistent with the operable segment concept.

SENATOR ANDREWS: Does the existence of this contingency account in any way affect the level of funds being set aside to make bond interest payments?

ANSWER: Rail construction funds and funds for payment of bond interest are entirely separate and distinct accounts. The contingency account in no way affects the level of funds used to pay bond interest.

WMATA'S FINAL 26 MILES REPORT

SENATOR ANDREWS: In response to direction provided in Senate Report 98-179 accompanying the 1984 DOT Appropriations Act, UMTA recently completed an analysis of the prospects for completion of the final 26 miles of the 103-mile Metro system under criteria applied to other systems competing for new start funds. Are you familiar with this study?

ANSWER: Yes, UMTA did send WMATA a copy of its analysis.

SENATOR ANDREWS: The study basically concluded that of the four segments remaining beyond the 77 miles that have been fully funded, only the Green Line extension from Anacostia to Branch Avenue falls below the cost-effectiveness threshold necessary to qualify for Section 3 discretionary funding. Do you agree with this analysis? If not, why?

ANSWER: Certainly we cannot be sure what an entirely new analysis would show. We do know, however, that many of the assumptions and projections made nearly ten years ago are presently out of date. The somewhat complicated "cost effectiveness index" developed by UMTA is also very sensitive to input assumptions, especially when it compares the net differences between two large numbers, such as in differential operating costs and differential ridership. Even the UMTA report states that the "Greenbelt segment at $6.56 is only slightly above the threshold and could possibly meet this criterion when updated cost and patronage data (or slightly different input assumptions) are considered." With regard to the Glenmont and Franconia-Springfield segments, we believe that they, as one-and-two station segments, do not show up as well as the other two long segments due to inherent problems with the threshold criteria. For example, there is only a single additional station on the Glenmont "extension"; thus in the "threshold criteria" the entire annualized capital cost of the service and inspection facilities (rail terminal yard) is prorated among just the "incremental" ridership from the single Glenmont station. It is difficult to analyze this segment further, since this segment was not subject to Alternatives Analysis and UMTA staff states that they generated all of the input data for this segment themselves. We believe that the two-station Franconia-Springfield segment suffers from a similar "short segment" effect. Obviously different criteria should be used to evaluate new segments to our existing system, as compared to a "new start" system.

SENATOR ANDREWS: The basic data on capital and operating costs used to conduct this analysis from the WMATA Alternatives Analysis published in 1978. Is more current data available to conduct such an analysis?

ANSWER: The Metrorail Alternatives Analysis cost about $1 million and took over 12 months to complete. During that time it consumed nearly all of the transportation staff resources of this region. Since that time, the Authority has generated information only on an as-needed basis for such efforts as environmental impact studies. While significant information has been generated on selected segments involving ridership, revenues, operating costs, capital costs, etc., the comprehensive (and expensive) background system (the so-called TSM system) to which each segment must be compared for the "effectiveness criteria" has not been generated. For the particular study, this expensive comparison set of data was not required. With the sensitiveness of the effectiveness formula it is not advisable to use some current data with other data almost 10 years old.

SENATOR ANDREWS: If current data were used in the preparation of cost-effectiveness indices, would you expect such data to result in different findings? If so, what?

ANSWER: It is very difficult to say what the outcome of such a new and expensive study would be. There is, however, no reason to think that the results would be dramatically different. The Branch and Greenbelt segments would in all probability still rate quite well. The Glenmont and Franconia-Springfield segments would continue to suffer from the vagaries of the "effectiveness formula" which tends to penalize short end-of-line segments by forcing them to support the heavy capital costs of yards, etc., prorated over incremental ridership from just one or two stations.

LOCAL COMMITMENT

SENATOR ANDREWS: What efforts has WMATA undertaken in the past year to secure a dedicated source of local funding to pay additional construction costs and operating deficits for both the rail and bus systems?

ANSWER: WMATA and the two states and eight jurisdictions which are covered by the Interstate Compact continue to provide all non-Federal operating and capital funds required of them. There has been no effort during the past year to secure a dedicated source of funding, since all local financial commitments are being met from individually determined revenue sources. Since there is no current need for a dedicated source of funding, it is believed desirable to allow for continued local option.

SENATOR ANDREWS: Given that Stark-Harris authorizations are sufficient to complete only 89.5 miles of the Metrorail system, what sources of funding do you envision will be available for completion of a proposed 103-mile system?

ANSWER: The Authority plans to seek additional Federal authorizations and local match funds as well as investigate other alternatives.

SENATOR ANDREWS: You stated in March 1985 that the Metro Board had taken no official position on the issue of dedicated local funding for construction and operation of Metro. Has such a position been taken by the Board since that time?

ANSWER: The Board has not revisited this issue.

SENATOR ANDREWS: Do you think that the local governments in this region are willing and financially able to provide an increasing subsidy to Metro in the future?

ANSWER: The local jurisdictions have demonstrated continually their commitment to the construction and operation of the transit system. Furthermore, the Federal City Council Study released in February of this year showed that in terms of constant dollars the share of transit operating subsidies in local budgets will be the same after the 103-mile system is operational as it is today - 2.5 percent.

SENATOR ANDREWS: What level of local participation is assumed in the full funding agreement currently being negotiated with UMTA?

ANSWER: The Full Funding Agreement is based on a minimum 20 percent level of local participation.

SENATOR ANDREWS: Does this commitment apply to local financing of system operating expenses?

ANSWER: The Full Funding Agreement does not address local financing of system operating expenses.

UNOBLIGATED BALANCES

SENATOR ANDREWS: How much money previously distributed to Metro remains unobligated?

ANSWER: Approximately $273 million remains unobligated. A major portion of it is earmarked for modifications, claims, closeouts and real estate.

SENATOR ANDREWS: Could some portion of these unobligated funds be used to compensate for a 1987 funding level that is lower than that requested by Metro? If not, why?

ANSWER: Staff's proposed plan is to use current unobligated funds (not required for the next 12 months) with the FY 85 and FY 86 appropriations to complete about 85 miles of the system including the Fort Totten to Prince George's Plaza segment. In order to extend to College park and then to Greenbelt, Metro will require full appropriations in FY 1987 and FY 1988. The unobligated funds previously encumbered cannot be reused to offset a shortfall in FY 1987 Federal appropriations.

SENATOR ANDREWS: Please provide for the record a breakdown of presently unobligated funds as to their designated use.

ANSWER:

DESIGNATED USE FOR UNOBLIGATED FUNDS		Million
Modifications/Claims/Closeouts		71.4
Real Estate		77.2
Projects Awaiting Obligation --		54.3
o Parking/Lake/Haul Road	$22.0	
o Forest Glen Parking	4.0	
o Metro Supply Facilities	4.6	
o West Hyattsville Line	12.0	
o Design Stage Contract	2.5	
o Utilities	5.6	
o Miscellaneous	3.6	
Subtotal	$54.3	
Design for future stations		17.0
Insurance Money awaiting transfer to Joint Reserve		21.9
Contingency		31.2
TOTAL		$273.0

ALTERNATIVE FUNDING SOURCES

SENATOR ANDREWS: In addition to the Stark-Harris funding, the Washington area has received from the Federal government Interstate Transfer grants and UMTA Section 9 formula grants that could be used for Metrorail system construction if the local jurisdictions so choose. How much Interstate Transfer or Section 9 funding will be used for Metrorail construction in FY 1986? How much of these funds have been used for Metrorail construction purposes in the past?

ANSWER: No Interstate Transfer funds are available to the Authority for any of its FY 1986 programs. Currently, all of the FY 1986 and prior Section 9 funds are committed to adopted rail and bus capital improvements projects. However, if no FY 87 Stark-Harris Funds are appropriated for Metrorail construction, then under the terms of the full funding agreement, a total of $33.0 million ($4.2 million matched) in FY 1984-1986 Section 9 funds will be reprogrammed for Metrorail construction projects.

SENATOR ANDREWS: Do you expect to use Interstate transfer grants or Section 9 formula funds for Metrorail construction in the future? If so, when and how much? If not, why?

ANSWER: WMATA would only consider the use of Section 9 funds for Metrorail construction in the event that Stark-Harris funding was cut off. Currently, there are no plans to divert future Section 9 funds from bus and rail capital improvements projects because the long range requirements of these programs far exceed projections of future receipts of Section 9 funds.

METRO OPERATING BUDGET

SENATOR ANDREWS: What is your proposed operating budget for FY 1987?

ANSWER: The approved operating budget for FY 1987 is:

Cost	-	$456.1 million
Revenue	-	235.7 million
Assistance	-	220.4 million

SENATOR ANDREWS: How does this level compare with the operating budget for each of FY 1984, 1985 and 1986?

ANSWER: The comparison follows:

	FY 1984	FY 1985	FY 1986	FY 1987
		(in millions)		
Cost	$357.7	$393.4	$424.6	$456.1
Revenue	173.3	205.9	218.9	235.7
Assistance	$184.3	$187.5	$205.7	$220.4

SENATOR ANDREWS: What level of operating subsidy will be necessary in 1987? What will be the source of these funds?

ANSWER: The FY 1987 operating assistance of $220.4 million will be funded primarily by the local jurisdictions. The budget does assume continuation of the Section 9 operating assistance funding of $18.5 million.

SENATOR ANDREWS: What are the projected operating subsidies necessary for 1988, 1989, and 1990?

ANSWER: The projected operating subsidies are:

FY 1988	$235 million
FY 1989	$247 million
FY 1990	$270 million

SENATOR ANDREWS: What percentage of your operating expenses will be recovered at the farebox in 1987? How does this compare with previous years? What is the cost recovery ratio for the Metrorail system alone?

ANSWER: The following chart provides the actual and projected cost recovery ratios for bus and rail operations.

	FY 1983 Actual	FY 1984 Actual	FY 1985 Actual	FY 1986 Actual March Year to Date	FY 1987 Projected
Metrobus	40.0%	41.2%	40.3%	38.2%	38.4%
Metrorail	57.9%	61.3%	68.0%	70.0%	66.9%
Composite	46.6%	48.6%	52.5%	52.4%	51.7%

It is WMATA's intention to improve upon its cost recovery ratio each year as a matter of policy. This can be achieved through cost containment efforts and by attracting more riders (service reliability).

SENATOR ANDREWS: How does Metro's percentage of operating expenses recovered at the farebox compare to other large transit systems?

ANSWER: WMATA's cost recovery ratio compares favorably with other systems around the nation. The following is a sampling of transit authorities and the FY 1986 cost recovery ratios.

CITY	AUTHORITY	FY 1986 COST/RECOVERY RATIO
Boston	MBTA	33.0%
Atlanta	MARTA	37.0%
Chicago	CTA	51.5%
Philadelphia	SEPTA	55.0%

OPERATING SUBSIDIES

SENATOR ANDREWS: How much and what percentage of your operating budget is provided by the Federal Government?

ANSWER; If Federal Section 9 operating assistance remains at the $18.5 million level, it will cover 4.0% of FY 1987 operating costs.

SENATOR ANDREWS: As you are aware, Ms. Turner, the Administration is proposing to eliminate operating assistance to areas over 200,000 population. If such legislation is enacted, how would you meet this shortfall in your operating budget?

ANSWER: WMATA has made a concerted effort over the past several years to contain costs, increase revenues, and improve the cost recovery ratio. As a result, the operating budget provides funding directly aimed at operating new and existing service, maintaining reliability and increasing ridership levels.

Currently the $18.5 million in Federal Operating Assistance represents 4.0% of WMATA's cost. If this funding were severely reduced or eliminated, WMATA has three options: reduce cost, raise revenue or increase the subsidies of local jurisdictions.

SENATOR ANDREWS: The Senate Budget Committee reported resolution assumes a twenty percent operating assistance cut (from the 1986 level). How would WMATA make up the difference?

ANSWER: A 20% reduction of WMATA's FY 1986 federal operating assistance of $18.5 million is $3.7 million or 1.7% of the FY 1987 jurisdictional operating assistance and .8% of operating costs.

The Authority is currently developing a contingency plan for the potential reduction of Federal operating assistance. Various options that are being considered are fare structure, marginal bus service and various program reductions.

SENATOR ANDREWS: It has been reported that your budget proposes to freeze fares for a third year to bolster ridership. How sensitive is Metro ridership to fare increases?

ANSWER: For a number of years, the WMATA Board of Directors had an informal policy of increasing fares annually at the rate of the consumer price index (CPI). In 1984, a Board-appointed task force recommended that, rather than automatic fare increases pegged to an index, any fare increases should relate to fiscal needs. That is, for the budget year, the operating cost for a predetermined level of service should be developed; a no-fare-increase level of revenue is then applied against this cost, yielding a resultant subsidy level. A decision is then made as to whether the cost recovery rate and the system subsidy meet the fiscal needs of the local jurisdictions. If they do meet these needs, as has occurred in the last three years, no fare increases are recommended. If additional revenues are required to meet these goals, then fare increases are considered. Certainly one of the benefits of WMATA's ability to avoid fare increases has been its contribution to the current high ridership growth.

Based on past experience, the Authority has incurred an average of about 0.3 percent ridership loss for each 1 percent increase in fares on both the bus and rail systems. The elasticity factor of 0.3 would be acceptable for normal changes in fares. If, however, fares were to be increased by an inordinate amount, consideration would be given to increasing this factor. It should be noted that the Authority uses different elasticity factors for bus and rail, and the factors differ by time period (peak versus off-peak periods).

SENATOR ANDREWS: What decline in ridership would your project if the minimum fares was increased to $1.00 and the fares were adjusted proportionally? What would be the impact on net revenue of such a change?

ANSWER: The current minimum fare on Metrobus and Metrorail is 80 cents during the peak and off-peak periods, except for the off-peak bus fare in the District of Columbia, which is 75 cents. Increasing the minimum fare to $1.00 would result in a major fare increase amounting to at least 25 percent, and for a large segment of riders the increase would be even greater. As a rule, the Authority uses specific resistance factors to determine estimated ridership losses due to normal changes in fares. The increase being considered here would be substantially higher than normal and therefore the normal resistance factors would have to be replaced by substantially higher ones.

During FY 1987, Metrorail and Metrobus ridership is projected at 121.9 million and 136.9 million trips, respectively. It is estimated that, with the minimum fare increased to $1.00, Metrorail ridership would decline about 9.2 million trips, with revenues increasing by about $13.8 million annually. Metrobus ridership loss is estimated at about 5.9 million trips, with revenues increasing by about $10 million annually.

SENATOR ANDREWS: Metro officials have been reported to state that if the Administration's efforts to halt Federal operating subsidies are successful, Metro may have to increase fares, reduce service, or seek higher local subsidies. If it is assumed that no service cutbacks are made, what percentage increase in fares would be necessary to substitute for the present level of Federal subsidy. What minimum fare does this translate to?

ANSWER: Federal operating funds amount to about $18.5 million annually. To offset this loss, a 15 percent increase in fares would be required on both bus and rail. This translates to about a 15-cent increase in the base fare on both modes.

SENATOR ANDREWS: Your 1987 budget would extend Metrorail service on Sundays from 6:00 p.m. to midnight. Will the increased cost of providing this new service be covered through the farebox from riders during that period?

ANSWER: The increased revenue provided from extended Sunday service will cover approximately one-third of the increased costs of that service.

SENATOR ANDREWS: Is expansion of Sunday Service a prudent move in the face of Federal cutbacks and increasing operating costs?

ANSWER: There are several factors that influenced the decision to extend the hours of Metrorail service on Sundays. Currently WMATA is providing a significant level of extended Sunday Metrorail service for special events. Examples of such special events include: Redskin games, Michael Jackson Concert and Christmas Holiday shopping. In addition there are several holidays during the year for which WMATA runs a "Sunday Schedule" which often require extended hours of operation. These holidays include: Thanksgiving Day, Thanksgiving weekend, Christmas, New Years, and Memorial Day. The special event approach to running Sunday service is accomplished with overtime. By providing extended Sunday service on a consistent basis, predictable staffing requirements have been identified, thus eliminating the provision of this service on an overtime basis.

Aside from the obvious benefit of providing additional rail service to the public, there are several other benefits resulting from extended Sunday Metrorail service. At several critical locations, such as National Airport, riders have often been "stranded" on Sundays after 6:00 p.m because of their expectation that Sunday service was provided until midnight, as it is the other six days of the week. The new Sunday service will provide a very predictable and consistent level of service, and every day service will be provided until midnight. We believe that in the long run this may actually increase ridership on Sundays, and may in fact result in new weekday riders as well. Finally, there is a large segment of the riding public that is almost totally transit dependent. The new Sunday hours will be particularly advantageous to this segment of the population.

SENATOR ANDREWS: How much in 1987 operating costs do you expect to save as a result of the recent decreases in fuel costs?

ANSWER: Lower fuel prices have provided WMATA an opportunity to project significant savings in FY 1987. The original FY 1987 budget estimates for fuel were reduced by $3 million during the final review of the FY 1987 operating budget.

SENATOR ANDREWS: What impact on Metro ridership do you anticipate as a result of the decline in gasoline prices?

ANSWER: People's choice of mode is a function of many variables, only some of which are economic. Clearly, a dramatic decline in the price of gasoline would normally suggest that the alternative mode (that is, the private car) would be more attractive. However, transit ridership has continued to increase during this period. This indicates that there are other factors, such as the cost and availability of parking, highway congestion, and ease of use, that are becoming increasingly important to people. We are also very proud of the fact that the quality of the service we provide, both bus and rail, is very high and research has shown that this is extremely important.

RENOVATION AND REPLACEMENT COSTS

SENATOR ANDREWS: A report recently released by the Federal City Council forecasts that renovation and replacement costs for Metro rail cars, tracks, and other equipment will increase from $41.8 million this year to $157.5 million in the year 2000 without taking into account the impact of inflation. Most such costs today are financed with federal funds. How do you propose that these costs will be financed in the future?

ANSWER: The Authority recognizes that the rail renovation and replacement program will become a major program over the next several years. It is anticipated that Section 3 and Section 9 funds will be available to fund at least a substantial portion of these costs. In order to insure that we are prepared for these costs in the event federal funds are not adequate, WMATA has established a depreciation reserve in the FY 1987 budget of $15 million. Also, the Board of Directors has directed that the issue be studied with recommendations provided in October 1986.

The Authority also plans to work to minimize these costs through an aggressive preventative maintenance program.

SENATOR ANDREWS: Do you generally agree with the findings of the Federal City Council Report? If not, why?

ANSWER: Yes, the Authority appreciates the work of the Federal City Council and agrees with its findings. The $157 million annual replacement cost is reasonable for a rail system of 103 miles and 86 stations. It is reasonable for any large operation with a $9 billion capital investment.

SENATOR ANDREWS: From which sector - local funds, federal funds, farebox - do you expect to generate additional income to cover these greatly increased costs?

ANSWER: The funds would be provided from a combination of federal and local sources.

SENATOR ANDREWS: A newspaper account of this situation reported that Metro and other local officials cited as one source of revenue for meeting such costs a proposed reserve fund relying on earnings from Metro's investments. Please describe generally how such a reserve fund would operate.

ANSWER: This will be developed as part of the study requested by the WMATA Board.

SENATOR ANDREWS: From what investments does Metro derive income? How much was earned from investments in 1985? What level of income from investments do you forecast for the year 2000?

ANSWER: The Authority's investment portfolio is derived from local contributions for both operating and construction programs and their combined cummulative income prior to contract disbursement. In fiscal 1985 the interest income on the capital fund totaled 26.6 million while interest income on the operating fund was 13.1 million for a combined total of 39.7 million. The Authority has estimated interest income for FY 86 and FY 87 to be 33.8 million and 33.4 respectively. Estimates for out years have generally been limited to a two-year timeframe. No projections incorporating present funding expectations and the present structure of interest rates have been made beyond FY 1987.

VALUE RECAPTURE

SENATOR ANDREWS: Will increased use of value recapture be a part of your future strategy to cover anticipated increases in Metro operating expenses? Please elaborate.

ANSWER: The Authority cannot levy taxes, and the means by which operating costs will be covered is a local decision. At the present time, local residents, be they users and/or beneficiaries, are paying for 95 percent of rail and bus operating costs.

The source of local, non-users contributions (i.e., operating subsidy) is from jurisdictional generated funds, the bulk of which are derived from property tax revenue. As far as is known, jurisdictions are not contemplating the earmarking of increased property valuations (value capture) for use in meeting Metro operating subsidies, but rather, are expecting to use the higher property tax yields attributable to Metro property as general fund revenues to be allocated as the jurisdictions determine.

SENATOR ANDREWS: How much private sector funding has been contributed to construction of the Metrorail system? What percentage of total system cost does this constitute?

ANSWER: The estimated cost of the 103-mile Metrorail system is $9,380.8 million based on the original ICCA-IV construction program.

The Authority has an active program to maximize private contribution to finance system construction through joint development projects and through donated real estate received during the acquisition process. These two sources have contributed $6 million or .06%.

SENATOR ANDREWS: Do you expect to issue a report on this subject? If so, when?

ANSWER: We are working on a plan including funding sources to help fund completion of the system. A proposed plan should be ready for presentation within the next six months.

LOCAL BUS SERVICES

SENATOR ANDREWS: How have locally operated bus systems in Montgomery County, Fairfax County, and Alexandria affected the operations of Metrobus and Metrorail?

ANSWER: The operation of these three locally operated bus systems affects Metrobus operations differently. The Montgomery County service is a complementary service providing public transit service to areas of the County where Metrobus does not operate. As a result of the way the service is designed, the levels of Metrobus service in the County have not decreased in the 11-year history of Ride-On.

The Alexandria DASH service subsumed the operation of three Metrobus routes, but also expanded transit service within the City of Alexandria. Thus, while there was a decrease in Metrobus service, residents of the City experienced increased transit service.

The Fairfax County Connector service was a direct replacement for Metrobus service in the Huntington service area, operating the same schedule and hours of service with an identical fare structure. The effect of this replacement was to reduce the Metrobus fleet by approximately 30 vehicles. The public, however, did not realize any degradation in service.

Metrorail service levels have not been affected by these locally operated bus systems. In fact, the effect of these three services on Metrorail has been positive. All services feed Metrorail stations and use WMATA bus bays at Metrorail stations as terminal points, which allows for ease of passenger transfers between Metrorail and these systems.

SENATOR ANDREWS: Each of these local systems operates basically as feeder service to Metrorail. Is duplicative service provided by Metrobus in these areas?

ANSWER: There is very little duplicative service provided among Metrobus and local systems. Any duplication that exists usually occurs on main thoroughfares where there is no alternative route or near Metrorail stations where access roads must be followed; coordinated service planning attempts to minimize duplication of service.

SENATOR ANDREWS: What reduction in operating subsidies to Metro have resulted from these bus systems being operated directly by local jurisdictions? Please provide a breakdown of the projected reductions for 1986 by local jurisdiction.

ANSWER: The Fairfax Connector went into operation on September 30, 1986. This reduced WMATA operating costs by $2,131,800; revenues by $575,000; and operating assistance by $1,556,800 for the nine months in FY 1986.

SENATOR ANDREWS: What savings will Metro achieve in 1986 as a result of decreased Metrobus service to those areas that provide their own local bus feeder service?

ANSWER: In September 1985, the Fairfax Connector service began operations in the Huntington service area as a total replacement for Metrobus service. Cost estimates indicate that a full year of service would require the County to incur an operating cost of $2.4 million for the Connector versus $3.1 million for similar Metrobus service, a savings of $700,000 or 22 percent; operating revenues and ridership would remain constant, since a similar fare structure would be imposed. The capital cost of the Connector was $7.6 million for a garage, land, 37 buses and support equipment, which amounts to an annualized cost of $900,000 over the useful life of the equipment. Thus the total annual cost to the County for the Connector service is on the order of $3.3 million.

SENATOR ANDREWS: Does the existence of locally provided bus feeder service result in a net saving or loss of revenue to Metro?

ANSWER: Locally operated bus service, when it is a direct replacement for Metrobus service, will cause a direct reduction of Metrobus operating costs and a direct loss of Metrobus passenger revenue. If the service is complementary, Metrobus does not experience a loss of passenger revenue. It should be noted, however, that Metrobus ridership and passenger revenues have increased every year since 1984, despite the initiation of DASH (Alexandria) and the Fairfax Connector service and a 25 percent increase in Ride-On (Montgomery County) service. During this same period, Metrorail has also experienced ridership growth on the order of 6 percent above and beyond the increases attributed to new phase openings.

SENATOR ANDREWS: Do you encourage or support the continuation or establishment of local bus systems to provide feeder service to Metrorail stations? Why, or why not?

ANSWER: The continued expansion or initiation of local bus systems can be supported by WMATA and can benefit the region if it is done in an appropriate manner. The Washington area is one of the fastest growth areas in the nation, and as a result, the region needs a comprehensive public transit system to meet the needs of the population. The expansion of the Metrorail system to its full 103 miles, plus an expanded bus network, will be a significant factor in solving the transportation problems of the region. An expanded bus network comprised of Metrobus and complementary local bus systems will bring more and more riders to the Metrorail system. For this reason, a cooperative planning effort for complementary bus services is supported by WMATA.

SENATOR ANDREWS: You stated last year that Metro had initiated a study to be completed in December 1985 that would analyze the impact of local bus operations on Metro. Please summarize for the record the findings of that study.

ANSWER: The study looked at four aspects of delivery of bus service. It looked at the role of Metrobus in the region, at the bus subsidy allocation formula, at residual liabilities, and at the use of WMATA facilities.

What was found was that even if there is a substantial increase in local bus service replacing or supplementing Metrobus service, the total change in costs would be about 3 to 4 percent across the region.

When the cost of new local bus services are compared to the costs of Metrobus service, there are costs that are incurred but are not necessarily reported in the figures quoted for the delivery of the local bus service. These unreported costs include administrative overhead, some aspects of maintenance and some of the procurement activities which are extensive costs. The important finding is that the region shares a common objective to provide the best public transportation and to move as many people as possible in the region in the most cost effective way.

We believe that Metro's role is to serve as a coordinator and a broker and to integrate these local bus systems in order to maximize the efficient use of the dollars being spent for transportation in the region.

SENATOR ANDREWS: Please update the information on page 749 of last year's hearing record regarding the status and level of local operations.

ANSWER: The current status of jurisdiction plans to supplement or replace Metrobus service are as follows:

1. District of Columbia - no plans or studies are being contemplated at this time.
2. Arlington County - has established a taxi shuttle service that operates after 9:00 pm weeknights and on Saturdays when the Metrobus 22B does not operate from the Ballston Station. The service carries about 350 people per month.
3. City of Alexandria - initiated DASH service two years ago by operating five routes with 17 vehicles. Current plans call for no expansion of DASH service.
4. Fairfax County - Fairfax County took over and operates nine Metrobus routes in the Huntington station area since September 1985. Future plans will probably address takeover of Metrobus routes to the Vienna Metrorail segment in FY 1987. Fairfax County recently placed $5,000,000 in their budget for the purchase of additional buses and support equipment.
5. Fairfax City - will initiate expanded service to the Metrorail Vienna station when it opens on June 7, 1986.
6. Falls Church - is conducting a feasibility study to assess local services to the East and West Falls Church Metro Stations, as well as the initiation of neighborhood service. Impacts will be felt by Metrobus, but most interjurisdictional services should not be affected.
7. Prince George's County - will initiate a local service to upper Marlboro in order to bring transit service to that part of the county. Implementation is expected during the summer 1986.
8. Montgomery County - Ride-On and Metrobus seem to have struck an even balance in the County with clearly defined service responsibilities. Montgomery County will expand Ride-On into the Wheaton/Glenmont areas when Metrorail system provides service to that area, but there are no plans to reduce or eliminate Metrobus service.

PURCHASE OF NEW FARECARD EQUIPMENT

SENATOR ANDREWS: It was recently reported that the Metro Board in a closed session had voted to purchase new fare collection equipment from the same company (Cubic Western Data) that produced Metro's current machines, without competitive bids. It was further reported, however, that in the face of protests from various sources you plan to reconsider and review the issue. Did the original decision of the Metro Board to purchase new farecard equipment without competitive bidding have your backing?

ANSWER: The procurement strategy for purchase of new farecard equipment has been difficult to establish, due to legal and technical difficulties and new funding constraints. The General Manager has evaluated the procurement options and recommended competitive negotiation of the equipment to the Board.

SENATOR ANDREWS: Why have you changed your mind?

ANSWER: The procurement strategy was reevaluated, based on new information and the adjusted size of the procurement. Since the Authority had not made a final decision on strategy, no changing of decision was required.

SENATOR ANDREWS; Has the equipment purchased from Cubic operated at Metro's standards?

ANSWER: WMATA's rail system fare collection operating environment is very demanding from an equipment point of view. We expect from the fare collection system: innovation, flexibility, user-friendliness, quality, reliability, maintainability, and the ability to move patrons into and out of heavily used rail stations. The Cubic equipment has met the majority of these expectations, however, we continue to look for ways to improve our fare collection system's reliability. Just recently, we introduced new Cubic farecard vending machines that accept ten and twenty-dollar currency as well as $1s and $5s. No other transit property offers this capability to its patrons. However, these new farecard vending machines are not currently meeting our reliability standard of 10,000 Mean Cycles Between Failures (MCBF) an 10,000 Mean Cycles Between James (MCBJ). We are receiving the full cooperation of the manufacturer in correcting the equipment deficiencies.

SENATOR ANDREWS: Are there presently warranty provisions in the equipment contract with Cubic?

ANSWER: Yes.

SENATOR ANDREWS: Will there be warranty provisions in your new contract?

ANSWER: Yes, WMATA plans to utilize the warranty provisions contained in our present contract for AFCE which are similar to provisions found in the Federal acquisition regulations. Generally speaking, it is a one-year warranty to begin after successful conclusion of acceptance tests.

SENATOR ANDREWS: If the decision is reached to purchase equipment from another manufacturer, do you foresee an increase in maintenance costs?

ANSWER: The cost of maintenance will be evaluated as part of the selection process after proposals have been received.

SENATOR ANDREWS: What major legal issues are involved in this dispute?

ANSWER: There is no dispute regarding procurement strategy. The legal issues are those present in any procurement of high technology equipment, especially where proprietary data issues are involved.

SENATOR ANDREWS: Have you been provided with guidelines or advice from UMTA regarding this issue? If so, what?

ANSWER: We are familiar with UMTA's procurement regulations. UMTA's Chief Counsel, Mr. LaSala, was apparently made aware of the proposed procurement and wrote a letter to the General Manager advising her of UMTA's legal requirements with respect to such a procurement.

SENATOR ANDREWS: When will this situation be resolved?

ANSWER: We will need to initiate our procurement of farecard equipment within the next two months.

CAPITAL PROGRAMS

SENATOR ANDREWS: Your Capital Programs Budget indicates that you plan no expenditures in FY 1987 for bus procurements. Why this sudden cut (from $16.8 million in FY 1986) when you plan to spend $14.4 million in 1998 and $19.9 million in 1989?

ANSWER: Due to reduced funding levels we have made an effort to optimize our different requirements and to seek balance between major components of the General Capital Program-Bus Procurement, Garage Construction/Renovation, and Rail Reliability.

Last year in the June 6, 1985 General Capital Program, we recommended no funding in FY 1987 for bus procurement but instead, programmed substantial funds ($22.5 million) for construction of the much-needed Southwestern Garage facility to replace the existing deteriorated Southeastern facility.

In the recently revised program approved by the WMATA Board on April 24, 1986, we have provided funding for bus procurements in each year through FY 1990 including $4.5 million in FY 1987.

SENATOR ANDREWS: What type of renovation is being made to the Southwestern/Southeastern Garage in 1987 that will require $22.5 million?

ANSWER: In the June 6, 1985 program we had recommended $22.5 million for construction of a new Southwestern Garage facility on the PEPCO site. The revised program approved by the WMATA Board on April 24, 1986 provides $19 million ($11 million in FY 1987 and $8 million in FY 1988 for phase construction of the Southwestern facility on the WGL Company site. The new facility will provide support, maintenance and storage for 250 buses including on-site employee parking. The total cost figure also includes cost for the garage equipment and landscaping required in the area.

NEOPLAN BUSES

SENATOR ANDREWS: Have all of the Neoplan buses removed from service last year due to structural defects been returned to revenue service? If not, how many are still under repair and when do you expect the full complement to be returned to service?

ANSWER: As of May 15, 1986, seventy-two (72) of the total sub-fleet of seventy-six (76) Neoplan buses have been returned to revenue service. Of the four (4) remaining buses, one bus (No. 9506) was maintained at the Lamar, Colorado Neopolan facility for engineering tests and has recently been returned to Neoplan's Montgomeryville, PA facility, where it is undergoing its final retrofit. One bus (No. 9548) was involved in a fire during the month of January 1985, sustaining extensive damage, and is currently undergoing final repairs at the Montgomeryville, PA facility. Summarized below is the status of the remaining two buses:

BUS NUMBER	STATUS
9527	Undergoing engine work at WMATA's Main Overhaul Facility.
9565	Undergoing engine work at Johnson & Towers, Baltimore, Maryland

It is expected that the two buses undergoing engine work will be returned by the end of May.

SENATOR ANDREWS: Have all repairs been performed under warranty by the manufacturer?

ANSWER: Yes; all repairs performed to date have been under warranty, and the phase IV retrofits still to be done will also be done under warranty.

SENATOR ANDREWS: Are you experiencing any recurrences of structural problems with these buses?

ANSWER: Yes, we have discovered one bus with a rear shock bracket failure since the new A-frame installation was completed. Additionally, numerous front shock absorber brackets have failed and several windshield frames have cracked, with studies being conducted by WMATA and the manufacturer.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

SENATOR D'AMATO: We have discussed the fact that more than $400 million in FY '85 and FY '86 funds appropriated for WMATA are presently being withheld by UMTA. If we are to assume that ongoing negotiations are successful and UMTA releases the funds in full, could you please tell the Subcommittee why an additional $250 million in FY '87 funding is required at this time?

ANSWER: The $400 million currently being withheld by UMTA, together with reprogrammed Section 9 and other funds, would permit construction of the Red Line to Wheaton, the Yellow Line to Van Dorn, the Inner Green Line from U Street to Anacostia, and the Outer Green Line from Fort Totten to Prince George's Plaza. To build these segments within the current UMTA operable segment requirement, WMATA would have to reprogram Section 9 funds and obtain advanced local shares from Metro compact members. The potential use of Section 9 funds for the construction program puts Metro at great risk, since it redirects funds which are the primary resource for capital replacement, maintenance, and rehabilitation of existing bus and rail equipment and facilities. Appropriation of $250 million in FY 1987 will permit Metro to avoid this reprogramming of Section 9 funds and will fund construction of the Outer Green Line to College Park.

SENATOR D'AMATO: Could that sum be adequately utilized prior to any subsequent year appropriation?

ANSWER: These funds are required in FY 1987 under the current UMTA operable segment policy which mandates that all funds to complete an operable segment must be appropriated and available before funds may be spent on any portion of the segment. Thus, the full appropriation is required, even though some funds may not be expended immediately. If WMATA were not constrained by the current operable segment policy, and if funds could be applied to projects when they are ready to go, substantially more funds could be utilized more quickly.

SENATOR D'AMATO: Please provide the Subcommittee with an estimate of the additional costs associated with satisfying UMTA's concerns regarding the release of FY '85 and FY '86 funds appropriated for WMATA?

ANSWER: The most costly requirement is that for operable segments, under which funds appropriated in the current year cannot be spent on projects which are ready to go, but rather must be reserved for expenditure on only that operable segment in the future. Under the previous policy, which allowed WMATA to proceed with several projects simultaneously in the expectation of future appropriations, a favorable bidding climate such as exists now could be exploited to reduce costs by moving all projects which are ready to go. Under the current UMTA requirement, the funds are instead constrained, and cannot be spent upon these projects. Without knowing how construction costs will change over the next several years and the rate at which appropriations will allow the program to progress, it is not possible to assess the cost of this operable segment policy, however, the cost is probably substantial.

SENATOR D'AMATO: The Washington Metrorail system has existed for about 17 years. Why then, in your view, is it that UMTA has sought to apply funding criteria to WMATA that have otherwise been reserved for "New Start" transit systems?

ANSWER: After numerous years of cooperative working relationships between WMATA and UMTA under a consistent set of rules, and after WMATA has established a reputation for quality and integrity in the Metrorail construction program, we cannot understand why UMTA would change the rules in midstream. Metrorail has already met UMTA's new start tests as a result of the Congressionally-mandated Alternatives Analysis. At the completion of that study, UMTA certified that it was cost-effective to complete all of the adopted regional Metrorail system.

SENATOR D'AMATO: In your testimony you expressed the view that WMATA should not be considered a "New Start." Can you amplify on that assertion, and please explain for the Subcommittee how the difference in classification may affect both construction aid and other Federal support?

ANSWER: We are completing a system of which over 70% is already built and in revenue service, as part of a continuing construction program which has progressed for 17 years. We have a separate authorization which reflects the Federal/local partnership which the Congress established when it created WMATA specifically to build the Metrorail system. It was only through complex negotiations that the Congressionally approved WMATA compact was put in place and a schedule for constructing Metrorail was reached. Changing the rules now, for instance applying the current UMTA definition of operable segments, results in a far less cost-effective use of available funds, negates the schedule agreements, ignores numerous successful years of the Federal/local partnership, overrides the commitments of every President since Eisenhower, and threatens the fabric of the interstate compact.

QUESTIONS SUBMITTED BY SENATOR CHILES

COMPLETING THE 103-MILE SYSTEM

SENATOR CHILES: Mrs. Turner, the Authority's plans currently call for completion of a rail system of 102.6 miles. Assuming that you can reach agreement with UMTA on the release of the funds appropriated in 1985 and 1986, how many miles can be constructed with these funds? Since UMTA requires that funding be used for operational segments, which segments on which lines will be constructed? If future appropriations are limited to the remaining Stark-Harris authorizations, how many miles will be built? What is the funding plan for segments beyond those covered by the Stark-Harris authorization?

ANSWER: The revised construction program now under review by UMTA and the local jurisdictions will allow WMATA to complete nearly 85 miles of the system using the FY 1985 and FY 1986 appropriations as well as reprogrammed prior year Stark-Harris and Section 9 funds. These funds will complete work on the operable segments from:

- o Silver Spring to Wheaton;
- o U Street to Anacostia
- o King Street to Van Dorn; and
- o Fort Totten to Prince George's Plaza

If the remaining Stark-Harris funds are received in a timely manner (about $250 million to $275 million annually), WMATA will be able to complete the 89.5 miles set out in ICCA-IV. This would add one operable segment to those listed above:

- o from Prince George's Plaza to Greenbelt.

WMATA will be looking at several funding plans for completion of the 103-mile system including new Congressional legislation.

SENATOR CHILES: The Administration has requested no funding for WMATA in 1987. In view of the fact that 1985 and 1986 funds have not yet been released, could WMATA continue a FY 1987 construction program with 1985 and 1986 funds?

ANSWER: The new plan now under review by the jurisdictions will accomplish this if approved.

REDUCTIONS IN OPERATING SUBSIDIES

SENATOR CHILES: As you know, the Administration's UMTA budget proposes a significant restructuring of and reduction in mass transit funding. If this proposal were to be enacted, operating assistance would be severely reduced. What impact would these reductions have on WMATA, particularly in view of the very small amount of UMTA operating assistance WMATA now receives compared to the overall WMATA operating budget .

ANSWER: WMATA has made a concerted effort over the past several years to contain costs, increase revenues, and improve the cost recovery ratio. As a result, the operating budget provides funding directly aimed at operating new and existing service, maintaining reliability and increasing ridership levels.

Currently, the $18.5 million in Federal Operating Assistance represents 4.0% of WMATA's cost. If this funding were severely reduced or eliminated, WMATA has three options: reduce cost, raise revenue or increase the subsidies of local jurisdictions.

LOWER OPERATING COSTS

SENATOR CHILES: WMATA has done a commendable job of attempting to recover a significant portion of its costs from the fare box. Of course, the biggest cost element is that locked in to your operations in your contracts with your unions. Can you outline changes achieved through your bargaining agreement which have resulted in lowering WMATA's costs? What improvements do you hope to make in the future?

ANSWER: The 1983 contract settlement provided several cost containment features which will hold down costs over time. The major changes were:

- o elimination of a pay increase in year one of the contract;
- o elimination of the COLA provision;
- o an increase in the number of part-time operators; and
- o elimination of vacation and holiday pay benefits to employees who are not on active duty.

The 1983 contract expired on April 30, 1986.

The 1983 contract expired on April 30, 1986 and a new contract is currently in negotiation. It would not be prudent to discuss pending proposals at this time.

LOWER FUEL AND CONSTRUCTION COSTS:

SENATOR CHILES: We have seen a plummeting of gasoline prices in recent months. Have these lower prices resulted in significant savings in your costs?

With lowered inflation, other costs such as construction, should also be lower than earlier estimates. Has WMATA found that construction bids are coming in below original estimates? If so, please provide some specific examples.

ANSWER: Lower fuel prices have provided WMATA an opportunity to project significant savings in the FY 1987 operating budget. The original FY 1987 budget estimates for fuel were reduced by $3 million during the final review of the FY 1987 operating budget.

Due to steadily declining inflation rates since 1980 (from 10.4% in 1980 to 1.2% in 1985), construction bids are coming in approximately 29.5% below WMATA's original program budget estimates. As shown on the following tabulation of six major construction contract bids since 1985, the total savings due to this exceptionally favorable environment was $97.8 million. This money was used to advance other construction contracts.

PROJECT UNIT	PROJECT DESCRIPTION	BID DATE
E-1a	Mt. Vernon Square/UDC Station & Line	January 11, 1984
F-4a	Anacostia River Crossing	October 10, 1984
E-1b/c	Shaw Station & Tunnels	March 27, 1985
F-5a	Anacostia Station & Line	May 22, 1985
F-3a	F Rout W. Tunnels & Crossover	September 11, 1985
E-2a	"U" Street Station	February 12, 1985

	WMATA PROGRAM AMOUNT	AWARD AMOUNT	SAVINGS
E-1a	$47,300,000	$46,450,000	$850,000
F-4a	46,100,000	25,555,145	20,544,855
3-1b/c	73,100,000	50,895,000	22,205,000
F-5a	62,900,000	41,518,747	21,381,253
F-3a	38,000,000	24,858,000	13,142,000
E-2a	64,000,000	44,298,000	19,702,000

TOTAL PROGRAM AMOUNT: $331,400,000

TOTAL AWARD AMOUNT: $233,574,892

TOTAL SAVINGS DUE TO LOWER BIDS: $97,825,108 = 29.5%

COST RECOVERY RATIO

SENATOR CHILES: WMATA has set goals for recovering a certain percentage of costs from the farebox. What are the projected ratios for rail and for bus operations? Please show the trend of these costs over the past five years. What can be done to improve cost recovery ratios on both rail and bus?

ANSWER: The following chart provides the actual and projected cost recovery ratios for bus and rail operations.

	FY 1983 Actual	FY 1984 Actual	FY 1985 Actual	FY 1986 Actual March Year to Date	FY 1987 Projected
Metrobus	40.0%	41.2%	40.3%	38.2%	38.4%
Metrorail	57.9%	61.3%	68.0%	70.0%	66.9%
Composite	46.6%	48.6%	52.5%	52.4%	51.7%

It is WMATA's intention to improve upon its cost recovery ratio each year as a matter of policy. This can be achieved through cost containment efforts and by attracting more riders (service reliability).

WMATA - FEDERAL CITY COUNCIL STUDY

SENATOR CHILES: Mrs. Turner, I understand that the Fed City Council recently released a study which analyzed the long costs of running a completed 103-mile Metro system. One of the major recommendations dealt with the fact that the Metro is now 10 years old and that not too long in the future, it will begin to be an aging transit system. The study recommends starting now to set aside significant sums for replacement equipment. What did the study recommend setting aside for replacement costs? What is WMATA's view of the study recommendations? What will be the estimated annual deficits of WMATA after the rail system is completed?

ANSWER: The Federal City Council Study did not recommend an annual amount to be reserved for replacement costs. WMATA will be initiating our own study on this matter and will report to the Board next fall.

The Federal City Council study projected annual deficits for the year 2000 in FY 1986 dollars. These would include deficits for the 103-mile system as follows:

Metrorail Operating Assistance.............	- $106 million
Metrobus Operating Assistance..............	- $147 million
TOTAL......................................	- $253 million

WMATA FARECARD MACHINES

SENATOR CHILES: I understand from recent newspaper accounts that WMATA is planning to upgrade its current farecard machines, as well as consider the new fare collection equipment for the new stations to open in the future. Does WMATA contemplate two separate procurement actions, one for the enhancement of its existing machines and a second for the new station's equipment, and would it use competitive procedures for both these procurements?

ANSWER: It is expected that a negotiated competitive procurement would be used for procuring new station equipment. The in-house program to extend the life and enhance performance of aging fare collection equipment is still in the preliminary phase. A number of procurements may be involved and the nature of these will be based upon WMATA procurement regulations.

SENATOR CHILES: Could you please explain a statement made during the House Transportation Appropriations Subcommittee Hearing that WMATA plans to enhance the existing farecard machines "in-house"?

ANSWER: The "in-house" enhancements of existing farecard machines means that WMATA contemplates making performance improvements to the farecard machines "in-house" rather than contracting for these services/improvements.

SENATOR CHILES: How would WMATA conduct such an enhancement program?

ANSWER: WMATA's Maintenance Engineering staff would develop a proposal defining the scope of the "in-house" program. This proposal would identify the needed equipment modifications and their resultant reliability improvements, as well as cost, schedule, and manpower requirements.

SENATOR CHILES: What are WMATA's cost estimates and schedules for (1) enhancement of existing farecard machines, and (2) acquisition of fare collection equipment for the new stations?

ANSWER: The "in-house" enhancement program is still in the planning state, and the costing and scheduling have not been finalized at this time.

SUBCOMMITTEE RECESS

Senator ANDREWS. We will stand in recess. Our next hearing will be tomorrow at 10 a.m., in this same room, when we will hear the Federal Aviation Administration. Thank you very much

[Whereupon, at 11:48 a.m., Wednesday, May 7, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, May 8.]

DEPARTMENT OF TRANSPORTATION AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

THURSDAY, MAY 8, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:08 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Mark Andrews (chairman) presiding.

Present: Senators Andrews, Abdnor, Kasten, D'Amato, Chiles, Byrd, and Lautenberg.

DEPARTMENT OF TRANSPORTATION

FEDERAL AVIATION ADMINISTRATION

STATEMENT OF DONALD D. ENGEN, ADMINISTRATOR

ACCOMPANIED BY:

- QUENTIN S. TAYLOR, DEPUTY ASSOCIATE ADMINISTRATOR FOR AIRPORTS
- WALTER S. LUFFSEY, ASSOCIATE ADMINISTRATOR FOR AIR TRAFFIC
- DALE McDANIEL, DEPUTY ASSOCIATE ADMINISTRATOR FOR POLICY AND INTERNATIONAL AVIATION
- ANTHONY J. BRODERICK, ASSOCIATE ADMINISTRATOR FOR AVIATION STANDARDS
- FRANK L. FRISBIE, ACTING ASSOCIATE ADMINISTRATOR FOR DEVELOPMENT AND LOGISTICS
- PAUL W. PETERSON, ACTING DIRECTOR OF BUDGET
- CHARLES E. WEITHONER, ASSOCIATE ADMINISTRATOR FOR HUMAN RESOURCE MANAGEMENT
- JOHN RYAN, DIRECTOR, AIR TRAFFIC OPERATIONS
- VALERIO HUNT, DIRECTOR, ADVANCED AUTOMATION PROGRAM OFFICE

OPENING REMARKS

Senator ANDREWS. The subcommittee will come to order. This morning, we will hear from the Honorable Donald Engen, the Administrator of the Federal Aviation Administration.

It is good to have you here, Mr. Administrator, to tell us of your budget and your plans for the year to come. Let me assure you that we have your statement and it will appear in the record as though you uttered every word. If you want to summarize it, we can save more time for questions.

We have received opening statements from Senators D'Amato and Chiles which will be placed in the record. You may proceed with your summary.

[The statements follow:]

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, I appreciate this opportunity to offer my remarks regarding the proposed fiscal year 1987 budget for the Federal Aviation Administration [FAA]. I extend my welcome to FAA Administrator Donald D. Engen, who will testify regarding the details of the FAA's budget request for the coming fiscal year.

The administration has proposed a fiscal year 1987 budget of $4.8 billion for the FAA. After satisfying the reductions required by Gramm-Rudman-Hollings, this amount is an increase of $33 million over fiscal year 1986. The administration also has requested an $80 million emergency supplemental appropriation for FAA operations to provide needed funds for the Air Traffic Controller Program. Transit formula grants have been targeted to supply more than $65 million of this supplemental request. The remainder is proposed to be derived from Amtrak ($8.7 million) and airport grants ($43.7 million).

My primary consideration regarding the FAA's proposed fiscal year 1987 budget is that it contain the funds necessary to safely operate this Nation's aviation system and to improve aviation security.

We need to provide the FAA with funds to rebuild its air traffic controller force and to fund other critical aviation needs. However, I question whether the proposed transfer of mass transit and Amtrak funds are appropriate sources for much of the FAA's supplemental request.

All aspects of our transportation network require sufficient funding in order to preserve the vast Federal investment already made in them. If we cut too close to the bone in paring down the Federal commitment to them, we will start a process of irreversible decay that will require even more funds in the future to make up. The various transportation modes—surface, air, and water—form an interdependent chain. We cannot reasonably expect that drastic reductions in one area will not work to the detriment of the total transportation network. I will be interested to hear Mr. Engen's explanations regarding this issue.

In the past, this subcommittee has closely questioned the FAA's assessment of the adequacy of its current air traffic controller force. It also has questioned the agency's ability to add qualified personnel at the rate it hopes to achieve. Mr. Engen's testimony indicates that, during fiscal year 1986, the FAA plans to increase the controller work force to 14,480. The fiscal year 1987 budget includes a goal of 15,000 controllers by September 30, 1987—just 16 months from now.

The current controller work force is about 14,020. Thus, about 980 new controllers will need to be trained. On February 19, Secretary Dole testified that about 500 controllers retire each year, and that "substantially more than 40 controllers" can be trained per month. Given the attrition rate in the work force, I believe that the subcommittee must be fully informed as to how the FAA will meet its ambitious goal of 15,000 controllers by the end of fiscal year 1987.

I look forward to hearing Mr. Engen's testimony on the many important issues facing the FAA in fiscal year 1987.

Thank you, Mr. Chairman.

STATEMENT OF SENATOR LAWTON CHILES

I would like to welcome Administrator Engen and his staff to this morning's hearing. Hearings with the FAA are always of great interest because of the number of important issues which concern the traveling public.

Last year we had a tragic number of commercial aviation disasters which heightens our concern over the effectiveness of the Nation's aviation safety system. We need to make sure that adequate numbers of trained personnel and modern equipment are in place to protect the traveling public. I hope that we can find out today how close we are to meeting this goal.

Of course, the recent upsurge of international terrorism, much of it directed toward airports and aircraft, also spotlights the need for an active and aggressive role of FAA in countering the terrorist threat.

Mr. Administrator, I look forward to hearing a description of these and other important issues today.

AIR TRAFFIC CONTROL

Mr. ENGEN. Thank you, Mr. Chairman. I would just give a precis of my comments. Our budget request for fiscal year 1987 recognizes the administration's responsibility to reduce the Federal budget deficit while maintaining the basic thrust of the National Airspace System plan.

In the matter of air traffic control, air traffic operations at the 22 pacing airports and 20 continental United States air route traffic control centers increased approximately 3 percent in calendar 1985. Most important, this increase in air traffic activity was accomplished with fewer delays in the summer of 1985 than existed in the previous year. Significant reductions in delays were reported at most of our congested airports.

While traffic was increasing and delays decreasing in 1985, our operational errors also decreased by some 25 percent systemwide. We see air traffic continuing to increase at a moderate rate in 1986. I anticipate that it will be more difficult to reduce delays this year, but there will be continued improvement in the operational error rate as the work force continues to mature.

During fiscal year 1986, we are implementing plans to increase the controller work force to 14,480. The fiscal year 1987 budget includes a controller work force employment goal of approximately 15,000 by September 30, 1987.

The number of full performance level controllers does continue to increase. As an example, at the end of March, there were 8,770 full performance level personnel, up some 455 in the last 6 months, and that was increased by 91 in the month of April.

We are hiring and training additional controllers and we will continue to strengthen the numbers and experience of the controller work force.

HUMAN RESOURCE MANAGEMENT

On the matter of human resource management, our organization is responsible for human resource planning, development evaluation, and research. In short, it has the task of effectively managing FAA's most important resource, our people.

It is in this area that we have made progress. This organization's significant efforts include striving to change management style throughout the agency by increasing cooperative management where all of our employees have a voice. Also, we have improved air traffic controller and aviation safety inspector training programs to increase controller trainee retention rates and to accelerate the qualifications of our inspectors.

Third, we have implemented a new, rehabilitative approach to substance abuse as part of an overall expansion of the agency's employee assistance program. It is a very fine program.

NAS PLAN

On the matter of the National Airspace System plan, Mr. Chairman, during the past year, critical elements of the NAS plan remained essentially on schedule. By the end of fiscal year 1985, we had awarded about 68 percent of the major NAS equipment contracts. Just a few of the more significant accomplishments are that IBM was awarded an acquisition contract for the host computer, the first phase of the automation modernization program.

This program will replace existing computer hardware with state-of-the-art systems.

Second, to date, automated flight service station locations have been identified for 60 of the planned total 61 sites. Factory testing of the model 1 system was completed and it has been delivered at nine locations. The initial model 1 commissioning occurred in February this year, at the Cleveland family of facilities.

Third, Westinghouse Electric Corp. and Systems Development Corp. were awarded a contract for 78 Mode-S ground stations with an option for 59 more.

Fourth, Norden Systems, Inc., was awarded a contract for 17 sets of airport surface detection equipment or ASDE's, with an option for 13 additional sets.

Last, in the short rundown, AT&T Technology Systems was awarded a 5-year contract for procurement of 312 radar microwave link installations with options for 692 additional sites.

INSPECTORS

In the matter of the Aviation Safety Inspector Program, the fiscal year 1987 budget requests an additional 138 aviation safety inspector positions. This continues our major initiative in increasing the number of aviation safety inspectors.

Now, in anticipation of these increases, the FAA increased its capacity to train inspectors in an improved and accelerated manner. Inspector orientation and job function courses have been reviewed and revised to ensure accuracy, validity, and applicability.

New inspectors are enrolled in these revised courses shortly after employment and are completing all the requisite initial formal training within the first 4 months of being with the agency.

We have implemented a nationally directed, mandatory work program, which defines the minimum inspection activities necessary to ensure that we maintain the knowledge of the safety and regulatory compliance in the aviation industry.

The General Accounting Office has recently completed, at the request of the House of Representatives, an audit of the FAA's oversight of maintenance and operations by the Nation's commercial air carriers.

The GAO audit closely paralleled and supported FAA studies which were underway.

AVIATION SECURITY

In the continuing matter of aviation security, we have, with the additional funds provided by Congress, significantly expanded both our security work force and its research and development activity in the area of explosives detection. Additional Federal air marshals have been hired and trained and are now providing enhanced security for U.S. citizens in international travel.

In addition, a number of significant actions have been taken to enhance the number and scope of security measures required at all airports, with particular emphasis on selected international airports.

TRUST FUND

In the matter of the airport and airway trust fund, the administration has proposed legislation to be effective in fiscal year 1987, to amend the provisions governing the trust fund share of FAA's operating costs. The trust fund is projected to fund 75 percent of operations costs and the budget request assumes elimination of the so-called penalty provisions, which ties this rate to amounts made available for capital programs.

Also, the administration has proposed legislation to suspend investment of the trust fund in interest-bearing U.S. securities.

Mr. Chairman, our fiscal year 1986 funding situation has been and continues to be constrained and we must aggressively manage fiscal year 1986 operations on a continuing basis. I wish to make clear that we have not cut back on programs related to safety, nor do we intend to.

ZERO-SUM SUPPLEMENTAL

We began 1986 in a very austere fiscal climate. Upon examination, we find the Gramm-Rudman-Hollings reductions have placed the FAA in a funding situation that is below its operational needs. Despite economy moves, including drastic reductions in travel, overtime, hiring, as well as managerial actions, we have been forced to ask for a supplemental appropriation.

That supplemental is vital if we are to continue to provide safe and adequate service to the traveling public. Even with this supplemental, we will have to make further reductions to lower priority programs in order to continue funding those programs that are crucial to the system's future.

We have requested also from Congress a $72.2 million zero-sum supplemental appropriation to transfer host acquisition savings in the Facilities and Equipment Appropriation, to the Advanced Automation System and the Research, Engineering and Development Appropriation.

Your urgent consideration of this zero-sum supplemental, upon receipt, is requested. Without approval of this supplemental, contractors will be forced to stop all work on the advanced automation system in the immediate future.

The budget we have submitted for fiscal year 1987 will permit us to operate. We will, however, have to continue carefully assessing our financial situation on a realtime basis to ensure that we maintain our operational capability.

I want to emphasize that I am most conscious of our safety responsibilities. If fiscal constraints appear likely to impact safety, I will, of course, take the necessary actions to correct this by first cutting back in other areas, or in the extreme, constraining the flow of air commerce.

The Operations Appropriation would increase $159 million in budget authority, but decrease 786 positions. Funding increases are for leased communications, annualization of our 1986 employment increases in the aviation inspector and security areas, training for the expanded controller work force and will avoid further deferment of services as a result of Gramm-Rudman-Hollings reductions.

Additional air traffic controllers and aviation safety inspectors are included in our position level.

GRANTS-IN-AID

In the Grants-In-Aid for Airports Program, we request an obligation level of $712.5 million for airport planning and development of the Nation's airports.

FACILITIES AND EQUIPMENT

Our request for the Facilities and Equipment Program totals $825 million, which will continue the critical elements of the NAS plan essentially on schedule.

RESEARCH, ENGINEERING, AND DEVELOPMENT

We do request $134.5 million to fund the Research, Engineering, and Development activities. The final development phase of the Advanced Automation System is included, along with the voice switching and control system, and research to improve our ability to detect weapons and explosives.

Mr. Chairman, that concludes my precis. I have my compatriots here with me and we would be pleased to respond to any questions.

Senator ANDREWS. Thank you, Administrator, for an excellent statement. We have your complete statement and it will be placed in the record.

[The statement follows:]

STATEMENT OF DONALD D. ENGEN

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I WELCOME THIS OPPORTUNITY TO DISCUSS OUR BUDGET REQUEST FOR FISCAL YEAR 1987. THIS REQUEST RECOGNIZES THE ADMINISTRATION'S RESPONSIBILITIES TO REDUCE THE FEDERAL BUDGET DEFICIT WHILE MAINTAINING THE BASIC THRUST OF THE NATIONAL AIRSPACE SYSTEM PLAN. WE WILL PROVIDE THE INCREASED NUMBERS OF AIR TRAFFIC CONTROLLERS AND AVIATION INSPECTORS REQUIRED TO ACCOMMODATE INCREASED DEMANDS FOR THEIR AVIATION SERVICES.

FOR FISCAL YEAR 1987, WE REQUEST TOTAL BUDGET AUTHORITY OF $4.8 BILLION, A SLIGHT INCREASE OF $33 MILLION OVER FISCAL YEAR 1986, AFTER ACCOMMODATING THE GRAMM-RUDMAN-HOLLINGS REDUCTIONS. APPROXIMATELY 85 PERCENT OF FAA'S FISCAL YEAR 1987 BUDGET IS PROPOSED TO BE FINANCED BY THE USERS OF AVIATION SERVICES THROUGH THE AIRPORT AND AIRWAY TRUST FUND.

MR. CHAIRMAN, BEFORE ADDRESSING THE FISCAL YEAR 1987 BUDGET REQUEST, I WILL HIGHLIGHT THE MORE SIGNIFICANT ACCOMPLISHMENTS OF THE PAST YEAR--ACCOMPLISHMENTS ACHIEVED THROUGH THE COOPERATION OF FAA EMPLOYEES, THE AVIATION COMMUNITY, AND THE CONGRESS.

AIR TRAFFIC CONTROL

AIR TRAFFIC OPERATIONS AT THE 22 PACING AIRPORTS AND 20 CONUS AIR ROUTE TRAFFIC CONTROL CENTERS INCREASED APPROXIMATELY

THREE PERCENT IN CALENDAR YEAR 1985. THIS REFLECTED CONTINUED PROSPERITY IN THE NATIONAL ECONOMY AND THE INCREASED DESIRE OF THE AMERICAN PEOPLE FOR AIR TRAVEL. MOST IMPORTANT, THIS INCREASE IN AIR TRAFFIC ACTIVITY WAS ACCOMMODATED WITH FEWER DELAYS IN THE SUMMER OF 1985 THAN EXISTED THE PREVIOUS YEAR. THE COOPERATION OF THE AIRLINES, WORKING WITH THE FAA, RESULTED IN A 17 PERCENT DECREASE IN DELAYS OF 15 MINUTES OR MORE WHEN COMPARED WITH 1984. SIGNIFICANT REDUCTIONS IN DELAYS WERE REPORTED AT THE MOST CONGESTED AIRPORTS.

FOR EXAMPLE, AT THE THREE NEW YORK METROPOLITAN AIRPORTS, DELAYS WERE DOWN 32 PERCENT FOR 1985 COMPARED TO 1984.

WHILE TRAFFIC WAS INCREASING AND DELAYS DECREASING IN 1985, OPERATIONAL ERRORS ALSO DECREASED BY 25 PERCENT SYSTEMWIDE. THE DECREASES IN OPERATIONAL ERRORS IN EN ROUTE CENTERS, WHERE TRAFFIC SPACING IS MONITORED BY COMPUTERS, WAS AN EVEN MORE DRAMATIC 34 PERCENT.

THESE IMPROVEMENTS WERE ACHIEVED AS THE AGENCY CONTINUED TO STRENGTHEN THE CONTROLLER WORK FORCE. DURING FISCAL YEAR 1986, WE ARE IMPLEMENTING PLANS TO INCREASE THE CONTROLLER WORK FORCE FURTHER TO 14,480. THE FISCAL YEAR 1987 BUDGET INCLUDES A CONTROLLER WORK FORCE EMPLOYMENT GOAL OF APPROXIMATELY 15,000 BY SEPTEMBER 30, 1987.

THE NUMBER OF FULL PERFORMANCE LEVEL (FPL) CONTROLLERS CONTINUES TO INCREASE. AT THE END OF FISCAL YEAR 1985, THERE WERE 8,315 FPL'S. SIX MONTHS LATER, AT THE END OF MARCH, THIS

NUMBER INCREASED TO 8,770. WE ARE HIRING AND TRAINING ADDITIONAL CONTROLLERS AND WE WILL CONTINUE TO STRENGTHEN THE NUMBERS AND EXPERIENCE OF THE CONTROLLER WORK FORCE.

HUMAN RESOURCE MANAGEMENT

OUR HUMAN RESOURCE MANAGEMENT ORGANIZATION IS RESPONSIBLE FOR HUMAN RESOURCE PLANNING, DEVELOPMENT, EVALUATION, AND RESEARCH. IN SHORT, IT HAS THE TASK OF EFFECTIVELY MANAGING FAA'S MOST IMPORTANT RESOURCE--PEOPLE. THIS ORGANIZATION'S SIGNIFICANT EFFORTS INCLUDE:

- A NEW POLICY STATEMENT REQUIRING ALL PLANS, POLICIES, PRACTICES, AND MANAGEMENT ACTIONS TO BE FORMULATED AND IMPLEMENTED IN A MANNER THAT RECOGNIZES THE IMPORTANCE OF FAA'S EMPLOYEES.
- REQUIRING ALL OPERATIONAL STRATEGIC AND TACTICAL PLANS TO ADDRESS HUMAN RESOURCE MANAGEMENT.
- STRIVING TO CHANGE MANAGEMENT STYLE THROUGHOUT THE AGENCY BY INCREASING COOPERATIVE MANAGEMENT WHERE ALL EMPLOYEES HAVE A VOICE.
- AMENDED POLICIES AND DIRECTIVES GOVERNING IMPLEMENTATION OF THE NAS PLAN TO PROVIDE FOR HUMAN FACTORS AND HUMAN RESOURCE IMPACT ANALYSIS.
- IMPROVEMENT OF AIR TRAFFIC CONTROLLER AND AVIATION SAFETY INSPECTOR TRAINING PROGRAMS TO INCREASE CONTROLLER TRAINEE RETENTION RATES AND TO ACCELERATE QUALIFICATIONS OF INSPECTORS.
- NEGOTIATION OF A RELOCATION ASSISTANCE CONTRACT AS A BENEFIT TO EMPLOYEES.
- IMPLEMENTATION OF A NEW, REHABILITATIVE APPROACH TO SUBSTANCE ABUSE AS PART OF AN OVERALL EXPANSION OF THE AGENCY'S EMPLOYEE ASSISTANCE PROGRAM.

NATIONAL AIRSPACE SYSTEM PLAN

DURING THE PAST YEAR, CRITICAL ELEMENTS OF THE NAS PLAN REMAINED ESSENTIALLY ON SCHEDULE WITH $1.2 BILLION OF FACILITIES AND EQUIPMENT APPROPRIATIONS OBLIGATED. THIS IS

MORE THAN THREE TIMES THE AMOUNT PREVIOUSLY OBLIGATED IN A SINGLE YEAR. BY THE END OF FISCAL YEAR 1985, WE HAD AWARDED ABOUT 68 PERCENT OF THE MAJOR NAS EQUIPMENT CONTRACTS. SOME OF THE MORE SIGNIFICANT ACCOMPLISHMENTS ARE AS FOLLOWS:

- IBM WAS AWARDED AN ACQUISITION CONTRACT FOR THE HOST COMPUTER, THE FIRST PHASE OF THE AUTOMATION MODERNIZATION PROGRAM. THIS PROGRAM, WHICH INVOLVES $197 MILLION, WILL REPLACE EXISTING COMPUTER

HARDWARE WITH STATE-OF-THE-ART SYSTEMS. THE HOST WILL INITIALLY USE CURRENT SOFTWARE TO PROVIDE

ADDITIONAL COMPUTER CAPACITY AND IMPROVE THE RELIABILITY OF THE FAA'S EN ROUTE CENTERS.

- TO DATE, AUTOMATED FLIGHT SERVICE STATION LOCATIONS HAVE BEEN IDENTIFIED FOR 60 OF THE PLANNED TOTAL OF 61 SITES. TWENTY-FIVE OF THE NEW FACILITIES WERE ACCEPTED FOR FAA OCCUPANCY. EIGHTEEN FLIGHT SERVICE STATIONS WERE CONSOLIDATED, AND NINE HAVE BEEN RELOCATED, WITH THE PERSONNEL AND SERVICES BEING RELOCATED TO ESTABLISH 16 NEW FACILITIES. FACTORY TESTING OF THE MODEL 1 SYSTEM WAS COMPLETED, AND IT HAS BEEN DELIVERED TO NINE LOCATIONS. THE INITIAL

  MODEL 1 COMMISSIONING OCCURRED IN FEBRUARY 1986 AT THE CLEVELAND FAMILY OF FACILITIES. WE ARE CURRENTLY REVIEWING HOW TO PROCEED WITH MODEL 2 IN LIGHT OF THE CAPABILITY OF INDUSTRY TO DEVELOP SOME OF THE SOFTWARE.

- A CONTRACT POTENTIALLY WORTH $221.8 MILLION WAS AWARDED TO WESTINGHOUSE ELECTRIC CORPORATION AND SYSTEMS DEVELOPMENT CORPORATION FOR 78 MODE-S GROUND STATIONS WITH AN OPTION FOR 59 MORE. MODE-S WILL PROVIDE MORE ACCURATE AIRCRAFT POSITION INFORMATION AND REDUCE RADAR BEACON INTERFERENCE.

- NORDEN SYSTEMS INC. WAS AWARDED A $55.6 MILLION CONTRACT FOR 17 SETS OF AIRPORT SURFACE DETECTION EQUIPMENT WITH AN OPTION FOR 13 ADDITIONAL SETS. THIS NEW SOLID-STATE RADAR EQUIPMENT WILL HAVE A GREATER CAPABILITY TO DETECT AIRCRAFT AND VEHICLES IN HEAVY PRECIPITATION AND PRESENT A CLEARER, SHARPER RADAR PICTURE UNDER ALL AMBIENT LIGHT CONDITIONS THAN IS AVAILABLE FROM THE PRESENT EQUIPMENT.

- A CONTRACT FOR DESIGN, DEVELOPMENT, AND FIRST-ARTICLE PRODUCTION OF THE REMOTE MAINTENANCE MONITORING EQUIPMENT FOR THE INSTRUMENT LANDING SYSTEM (ILS) WAS AWARDED TO NEW BEDFORD PANORAMICS FOR $10 MILLION. THIS IS THE FIRST PHASE OF A TWO-PHASE CONTRACT. THE SECOND PHASE WILL BE FOR PRODUCTION QUANTITIES SUFFICIENT TO RETROFIT 850 CATEGORY 1 ILS'S.

- A MICROWAVE LANDING SYSTEM (MLS) IMPLEMENTATION CONTRACT WAS AWARDED FOR $90.6 MILLION IN 1984 TO PROVIDE 172 SYSTEMS. THE CONTRACTOR, HAZELTINE, SUCCESSFULLY COMPLETED THE CRITICAL DESIGN REVIEW IN 1985 AND DELIVERIES ARE EXPECTED TO COMMENCE IN MID-1987. MLS WILL PROVIDE MORE PRECISE LANDING GUIDANCE THAN THE PRESENT ILS.

- IN THE NATIONAL RADIO COMMUNICATIONS SYSTEM (NARACS)

PROGRAM, A $15.4 MILLION CONTRACT WAS AWARDED TO MOTOROLA INC. TO PROCURE EQUIPMENT FOR REGIONAL NETWORKS. THE ESTABLISHMENT OF A NARACS SYSTEM WILL PROVIDE COMPLETE COMMUNICATIONS COVERAGE WITH FAA HEADQUARTERS, REGIONS, FIELD OFFICES, AIRCRAFT ACCIDENT SITES, AND OTHER GOVERNMENT AGENCIES.

o A FIVE-YEAR CONTRACT WAS AWARDED TO AT&T TECHNOLOGY SYSTEMS FOR PROCUREMENT OF 312 RADAR MICROWAVE LINK INSTALLATIONS WITH OPTIONS FOR 692 ADDITIONAL SITES. THE INITIAL ORDER VALUE IS $49.2 MILLION AND THERE ARE OPTIONS THAT COULD BRING THE TOTAL CONTRACT VALUE TO $188.2 MILLION. THIS SYSTEM WILL ENABLE CONTROLLERS AND PILOTS TO EXCHANGE DATA AND VOICE COMMUNICATIONS MORE EFFICIENTLY, IMPROVING VITAL NAVIGATIONAL AND WEATHER COMMUNICATIONS, WHILE REDUCING COSTS.

AVIATION SAFETY INSPECTOR PROGRAM

THE FISCAL YEAR 1987 BUDGET REQUESTS AN ADDITIONAL 138 AVIATION SAFETY INSPECTOR POSITIONS. THIS CONTINUES OUR MAJOR INITIATIVE OF INCREASING THE NUMBER OF AVIATION SAFETY INSPECTORS. WE ARE PROCEEDING TO INCREASE THE WORK FORCE BY A MINIMUM OF THE 150 INSPECTOR POSITIONS REQUESTED IN OUR FISCAL YEAR 1986 BUDGET AMENDMENT, AND WE WILL ENDEAVOR TO FURTHER INCREASE THE INSPECTOR WORK FORCE TO THE MAXIMUM EXTENT POSSIBLE WITHIN AVAILABLE FISCAL YEAR 1986 FUNDING.

IN ANTICIPATION OF THESE INCREASES, THE FAA INCREASED ITS CAPACITY TO TRAIN INSPECTORS IN AN IMPROVED AND ACCELERATED MANNER. INSPECTOR ORIENTATION AND JOB FUNCTION COURSES HAVE BEEN REVIEWED AND REVISED TO ENSURE ACCURACY, VALIDITY, AND APPLICABILITY. NEW INSPECTORS ARE ENROLLED IN THESE REVISED COURSES SHORTLY AFTER EMPLOYMENT AND ARE COMPLETING ALL REQUISITE INITIAL FORMAL TRAINING WITHIN THE FIRST FOUR MONTHS. PREVIOUSLY, THIS TRAINING WAS ACCOMPLISHED WITHIN THE FIRST TWO YEARS OF EMPLOYMENT.

IN ADDITION, THE FAA HAS COMPLETED A COMPREHENSIVE REVIEW AND EVALUATION OF THE EFFICIENCY AND EFFECTIVENESS OF THE FLIGHT STANDARDS INSPECTOR WORK FORCE. THE FINDINGS AND CONCLUSIONS ARE NOW BEING REVIEWED AND INDICATED IMPROVEMENTS ARE UNDERWAY.

AS AN EARLY FIRST STEP, WE IMPLEMENTED A NATIONALLY-DIRECTED, MANDATORY WORK PROGRAM, WHICH DEFINES THE MINIMUM INSPECTION ACTIVITIES NECESSARY TO ENSURE THAT WE MAINTAIN KNOWLEDGE OF THE SAFETY AND REGULATORY COMPLIANCE IN THE AVIATION INDUSTRY. WRITTEN DIRECTIVES HAVE ESTABLISHED MINIMUM LEVELS AND FREQUENCIES FOR MANDATORY SURVEILLANCE OF AIR CARRIERS, AIR AGENCIES, AIR OPERATORS, AND AIRMEN. IN FISCAL YEAR 1986, 71,599 INSPECTIONS OF ALL TYPES ARE PLANNED, INCLUDING 14,147 OPERATIONS, MAINTENANCE, AND AVIONICS INSPECTIONS OF THE NATION'S SCHEDULED AIR CARRIERS. THE PREPLANNED

INSPECTIONS ARE IN ADDITION TO OTHER ACTIVITIES, SUCH AS ACCIDENT INVESTIGATION, AIRMAN CERTIFICATION, AND NEW-ENTRANT OPERATOR CERTIFICATION.

IN ADDITION TO THIS MANDATORY WORK PROGRAM, WE HAVE INITIATED A MAJOR NEW INSPECTION INITIATIVE WHICH INSTITUTIONALIZES THE INSPECTION METHODOLOGY USED DURING THE 1984 NATIONAL AIR TRANSPORTATION INSPECTION PROGRAM. AS PART OF THIS INITIATIVE, THE FAA HAS CONDUCTED SPECIAL INDEPTH INSPECTIONS OF 20 CERTIFICATED TURBINE ENGINE REPAIR STATIONS. IN ADDITION, 45 AIR CARRIERS HAVE BEEN SELECTED FOR INDEPTH INSPECTIONS AS RAPIDLY AS AVAILABLE RESOURSES WILL PERMIT. IN THESE INSPECTIONS, THE FAA WILL PLACE SPECIAL EMPHASIS ON AIR CARRIERS WHICH DERIVE SIGNIFICANT REVENUES FROM MILITARY CHARTER FLIGHTS.

THE GENERAL ACCOUNTING OFFICE HAS RECENTLY COMPLETED, AT THE REQUEST OF THE HOUSE OF REPRESENTATIVES, AN AUDIT OF THE FAA'S OVERSIGHT OF MAINTENANCE AND OPERATIONS BY THE NATION'S COMMERCIAL AIR CARRIERS. THE GAO AUDIT CLOSELY PARALLELED AND SUPPORTED FAA STUDIES WHICH WERE UNDERWAY. IT WAS A VERY COOPERATIVE AND BENEFICIAL EFFORT AND WE EXPECT TO BENEFIT GREATLY FROM THEIR FINDINGS.

AVIATION SECURITY

WITH THE ADDITIONAL FUNDS PROVIDED BY THE CONGRESS, FAA SIGNIFICANTLY EXPANDED BOTH ITS SECURITY WORK FORCE AND ITS RESEARCH AND DEVELOPMENT ACTIVITY IN THE AREA OF EXPLOSIVES DETECTION. THE EXPANDED WORK FORCE ALLOWS FOR A GREATLY

INCREASED AIRPORT AND AIR CARRIER SURVEILLANCE PROGRAM, PARTICULARLY AT AIRPORTS AND STATIONS IN OTHER NATIONS. ADDITIONAL FEDERAL AIR MARSHALS HAVE BEEN HIRED AND TRAINED AND ARE NOW PROVIDING ENHANCED SECURITY FOR U.S. CITIZENS IN INTERNATIONAL TRAVEL.

THE FAA HAS IMPLEMENTED THREE EMERGENCY RULES TO DEAL WITH THE INCREASED THREAT OF TERRORISM IN AVIATION. THE FIRST REQUIRES AIRLINES TO TRANSPORT FEDERAL AIR MARSHALS IN THE NUMBER AND MANNER SPECIFIED BY THE FAA. THE SECOND REQUIRES INCREASED SECURITY TRAINING FOR CREWMEMBERS AS WELL AS THE DESIGNATION AND TRAINING OF GROUND SECURITY COORDINATORS AT ALL AIR CARRIER STATIONS. THE THIRD REQUIRES PREEMPLOYMENT BACKGROUND CHECKS OF ALL NEWLY HIRED AIRPORT AND AIR CARRIER EMPLOYEES HAVING ACCESS TO THE SECURE AREAS OF AN AIRPORT.

IN ADDITION, A NUMBER OF SIGNIFICANT ACTIONS HAVE BEEN TAKEN TO ENHANCE THE NUMBER AND SCOPE OF SECURITY MEASURES REQUIRED AT ALL AIRPORTS, AGAIN WITH PARTICULAR EMPHASIS ON SELECTED INTERNATIONAL AIRPORTS. THE INTERNATIONAL SECURITY AND DEVELOPMENT COOPERATION ACT OF 1985 REQUIRES INCREASED AIRPORT ASSESSMENT ACTIVITY AND PROVIDES FOR MORE RIGOROUS SANCTIONS AGAINST AIRPORTS THAT FAIL TO MAINTAIN AND ADMINISTER EFFECTIVE SECURITY MEASURES.

AIRPORTS PROGRAM

THE AIRPORT CAPACITY PROGRAM OFFICE WAS ESTABLISHED TO COORDINATE AGENCY CAPACITY ACTIVITIES. IN PART, THIS INCLUDES COORDINATION OF IMPROVED AIR TRAFFIC PROCEDURES, AIRPORT CAPACITY TASK FORCE ACTIVITIES, AND AIRPORT CAPACITY SIMULATIONS.

A LITTLE OVER A YEAR AGO, THE AIR TRANSPORT ASSOCIATION RECOMMENDED OVER 130 PROJECTS TO IMPROVE CAPACITY AT 22 HIGH ACTIVITY AIRPORTS. TO DATE, OVER 31 PERCENT OF THE PROJECTS ARE UNDER WAY THROUGH THE GRANT PROCESS, AND OVER 56 PERCENT ARE ANTICIPATED TO BE COMPLETED DURING FISCAL YEAR 1987.

IN FISCAL YEAR 1985, THE AGENCY FINALIZED FEDERAL AVIATION REGULATION PART 150, "AIRPORT NOISE COMPATIBILITY PLANNING." THE PART 150 NOISE PLANNING PROCESS IS THE FAA'S PRIMARY PROGRAM TO RESOLVE SITE-SPECIFIC AIRPORT NOISE PROBLEMS. IT IS A BALANCED PROGRAM AIMED AT REDUCING NOISE IMPACTS WHILE NOT UNDULY AFFECTING THE NATIONAL AIR TRANSPORTATION SYSTEM. THIS PROGRAM HAS BEEN GIVEN IMPETUS WITH FINANCIAL ASSISTANCE UNDER THE AIRPORT GRANTS PROGRAM. THERE ARE AN ESTIMATED 75 AIRPORTS NATIONWIDE ENGAGED IN NOISE PLANNING, WITH 10 AIRPORTS TO DATE HAVING TOTALLY COMPLETED THE PROCESS WITH FAA APPROVAL OF THEIR NOISE COMPATIBILITY PROGRAMS.

UNDER THE AIRPORT CERTIFICATION PROGRAM, ALL AIRPORTS SERVED BY AIR CARRIER AIRCRAFT WITH MORE THAN 30 SEATS ARE INSPECTED AT LEAST ANNUALLY. THESE INSPECTIONS ENSURE THAT THE AIRPORTS ARE IN COMPLIANCE WITH SAFETY AND OPERATIONAL REGULATORY REQUIREMENTS.

SAFETY RECORD

THE UNITED STATES AVIATION SAFETY RECORD CLEARLY INDICATES THAT AVIATION IS STILL OUR SAFEST MODE OF TRAVEL. THE U.S. TOTAL SYSTEM ACCIDENT RATE PER 100,000 FLIGHT HOURS, THE FATAL ACCIDENT RATE, AND THE SERIOUS INJURY RATE ALL CONTINUED THEIR LONG-TERM AND STEADY DECREASES.

THE ATTENTION GIVEN TO THE INTERNATIONAL AVIATION ACCIDENTS SERVED TO CAST A DARK SHADOW ON ALL OF COMMERCIAL AVIATION. ACCORDING TO THE INTERNATIONAL CIVIL AVIATION ORGANIZATION (ICAO), THE NUMBER OF FATALITIES FOR COMMERCIAL AIRCRAFT ACCIDENTS IN SCHEDULED SERVICE WORLDWIDE FOR 1985 EXCEEDS 1,430, RESULTING FROM 16 FATAL ACCIDENTS. THIS IS CLOSE TO DOUBLE THE NUMBER OF FATALITIES RECORDED IN ANY OTHER YEAR GOING BACK TO 1975. TAKEN TOGETHER, THE AIR INDIA AND JAPAN AIRLINES FATALITIES ALONE WOULD EXCEED THE TOTAL FOR ANY OF THESE PRIOR YEARS. THE U.S. AIR CARRIER PART OF THIS RECORD YEAR WAS 197 FATALITIES FOR SCHEDULED SERVICE RESULTING FROM FOUR ACCIDENTS. THIS WAS EXCEEDED IN 1979 WITH 351 FATALITIES AND IN 1982 WITH 233 FATALITIES.

THE U.S. AIR CARRIER SAFETY RECORD WAS FURTHER INFLUENCED BY THREE NONSCHEDULED SERVICE ACCIDENTS INCLUDING THE GALAXY

CRASH IN RENO AND THE ARROW AIR CRASH IN NEWFOUNDLAND FOR A TOTAL OF 329 FATALITIES IN THE NONSCHEDULED SERVICE CATEGORY. THE COMBINED SCHEDULED AND NONSCHEDULED SERVICE FATALITIES WAS THUS 526 WHICH WAS THE LARGEST NUMBER IN ANY SINGLE YEAR SINCE 1977, WHEN THERE WERE 655 FATALITIES.

THE 1985 SCHEDULED AND NONSCHEDULED AIR CARRIER AND AIR TAXI ACCIDENT AND FATAL ACCIDENT RATES WERE HIGHER THAN IN 1984, WHILE COMMUTER AND GENERAL AVIATION RATES WERE BELOW 1984 LEVELS. WITH THE EXCEPTION OF NONSCHEDULED AIR CARRIERS, ACCIDENT AND FATAL ACCIDENT RATES, PER 100,000 FLIGHT HOURS, FOR ALL OPERATOR CATEGORIES WERE BELOW 1978 LEVELS, WHEN THE AIRLINE INDUSTRY WAS DEREGULATED.

AVIATION FORECASTS

WITH THE STRONG GROWTH IN THE ECONOMY, AVIATION ACTIVITY IS EXPECTED TO CONTINUE THE UPTURN BEGUN DURING FISCAL YEAR 1983. THIS GROWTH WILL, OF COURSE, AFFECT FAA WORK AND RESOURCES. LET ME BRIEFLY HIGHLIGHT OUR ACTIVITY FORECASTS.

IN FISCAL YEAR 1987 WE PROJECT THE FOLLOWING INCREASES:

- INSTRUMENT FLIGHT RULES AIRCRAFT HANDLED BY THE EN ROUTE SYSTEM WILL INCREASE FROM 34.0 MILLION TO 35.1 MILLION, OR 3.2 PERCENT.
- INSTRUMENT OPERATIONS AT FAA TOWERS WILL INCREASE FROM 40.6 MILLION TO 42.3 MILLION, A 4.2 PERCENT RISE.
- AIRCRAFT OPERATIONS, LANDINGS AND TAKEOFFS, CONTROLLED BY FAA TOWERS WILL INCREASE 3.3 PERCENT FROM 59.8 MILLION TO 61.8 MILLION.
- FLIGHT SERVICES PROVIDED BY FLIGHT SERVICE STATIONS WILL INCREASE FROM 54.6 MILLION TO 56.5 MILLION, AN INCREASE OF 3.5 PERCENT.

AIRPORT AND AIRWAY TRUST FUND

AT THE START OF FISCAL YEAR 1987, WE ESTIMATE AN UNAPPROPRIATED BALANCE IN THE TRUST FUND OF $6.0 BILLION, OF WHICH SOME $3.4 BILLION IS COMMITTED LEAVING AN UNCOMMITTED STARTING BALANCE OF $2.7 BILLION. REVENUE IS ESTIMATED AT $3.2 BILLION IN FISCAL YEAR 1987.

THE UNAPPROPRIATED BALANCE AT THE END OF FISCAL YEAR 1987 IS ESTIMATED AT $5.3 BILLION, OF WHICH NEARLY $4.0 BILLION IS COMMITTED. THE REMAINING $1.4 BILLION IS THE PROJECTED UNCOMMITTED BALANCE IN THE TRUST FUND AT THE END OF FISCAL YEAR 1987.

THE ADMINISTRATION HAS PROPOSED LEGISLATION, TO BE EFFECTIVE IN FISCAL YEAR 1987, TO AMEND THE PROVISIONS GOVERNING THE

TRUST FUND SHARE OF FAA'S OPERATING COSTS. THE TRUST FUND IS PROJECTED TO FUND 75 PERCENT OF OPERATIONS COSTS AND THE BUDGET REQUEST ASSUMES ELIMINATION OF THE SO-CALLED "PENALTY PROVISIONS," WHICH TIE THIS RATE TO AMOUNTS MADE AVAILABLE FOR CAPITAL PROGRAMS.

ALSO, THE ADMINISTRATION HAS PROPOSED LEGISLATION TO SUSPEND INVESTMENT OF THE TRUST FUND IN INTEREST-BEARING U.S. SECURITIES.

TOGETHER WITH OUR PROPOSED TRUST FUND LEVELS IN FISCAL YEAR 1987, THIS FURTHER REDUCES THE PROJECTED UNCOMMITTED TRUST FUND BALANCE.

FISCAL YEAR 1986 OPERATIONS LEVELS

THE CONGRESS ENACTED $2,695 MILLION FOR THE "OPERATIONS" APPROPRIATION, OF WHICH $116 MILLION WAS LATER SEQUESTERED UNDER THE BALANCED BUDGET AND EMERGENCY DEFICIT REDUCTION ACT OF 1985, COMMONLY REFERRED TO AS THE GRAMM-RUDMAN-HOLLINGS ACT. THIS REDUCTION HAS REQUIRED STRINGENT ACTIONS IN FISCAL YEAR 1986 TO ACHIEVE SAVINGS IN AN ACCOUNT WHERE 75 PERCENT OF THE COSTS ARE DIRECTLY ATTRIBUTABLE TO PERSONNEL. MANY ALTERNATIVES WERE REVIEWED AND ANALYZED FOR POSSIBLE COST SAVINGS. A TOTAL HIRING FREEZE HAS BEEN IMPOSED ON ALL EMPLOYMENT EXCEPT AIR TRAFFIC CONTROLLERS, AVIATION SAFETY INSPECTORS, SECURITY PERSONNEL, AND SELECTED BACKFILL OF MAINTENANCE TECHNICIANS. ALSO, OTHER COSTS HAVE BEEN CUT BACK TO THE MINIMUM, INCLUDING DISCRETIONARY TRAVEL, OVERTIME, CONTRACTS, AND EQUIPMENT PURCHASES. WE WILL USE THE AUTHORITY IN THE FISCAL YEAR 1985 SUPPLEMENTAL APPROPRIATION TO TRANSFER $8 MILLION FROM UNOBLIGATED BALANCES IN THE PRIOR YEAR FACILITIES AND EQUIPMENT APPROPRIATIONS TO FUND THE 200 REEMPLOYED ANNUITANTS IN OUR AIR TRAFFIC PROGRAM, AND HAVE PROPOSED A SUPPLEMENTAL APPROPRIATION REQUEST.

MR. CHAIRMAN, OUR FISCAL YEAR 1986 FUNDING SITUATION HAS BEEN AND CONTINUES TO BE CONSTRAINED, AND WE MUST AGGRESSIVELY MANAGE FISCAL YEAR 1986 OPERATIONS ON A CONTINUING BASIS. HOWEVER, WE WILL NOT BE ABLE TO DO ALL THAT MUST BE DONE BY OURSELVES. I STRONGLY URGE YOU, MR. CHAIRMAN, AND YOUR COLLEAGUES, TO SUPPORT IMMEDIATE ENACTMENT OF THE SUPPLEMENTAL APPROPRIATION THAT HAS BEEN REQUESTED, SO THAT WE CAN SUCCESSFULLY COMPLETE THIS FISCAL YEAR WITHOUT FURLOUGHING FAA PERSONNEL. I WISH TO MAKE CLEAR THAT WE HAVE NOT CUT BACK ON PROGRAMS RELATED TO SAFETY NOR DO WE INTEND TO.

WE BEGAN 1986 IN AN AUSTERE FISCAL CLIMATE. UPON EXAMINATION, WE FIND THE GRAMM-RUDMAN-HOLLINGS REDUCTIONS HAVE PLACED FAA IN A FUNDING SITUATION THAT IS BELOW THAT NEEDED TO OPERATE. DESPITE ECONOMY MOVES, INCLUDING DRASTIC REDUCTIONS IN TRAVEL, OVERTIME, HIRING, AS WELL AS MANAGERIAL ACTIONS, WE HAVE BEEN FORCED TO ASK FOR A SUPPLEMENTAL. WE ARE CONTINUING TO HAVE A MOST DIFFICULT TIME FUNCTIONING. WE WILL HAVE TO MAKE REDUCTIONS IN PROGRAMS WHICH, THOUGH NOT CRUCIAL, ARE MUCH

NEEDED. FOR EXAMPLE, OUR HUMAN RELATIONS EFFORTS--BADLY NEEDED TO IMPROVE THE MANAGEMENT CLIMATE THROUGHOUT THE WORK FORCE--WILL INEVITABLY SUFFER IN THESE AUSTERE TIMES.

THE BUDGET WE HAVE SUBMITTED FOR FISCAL YEAR 1987 WILL PERMIT US TO OPERATE. WE WILL, HOWEVER, HAVE TO CONTINUE CAREFULLY ASSESSING OUR FINANCIAL SITUATION ON A REAL TIME BASIS TO INSURE THAT WE MAINTAIN OPERATIONAL CAPABILITY. HOWEVER, I WANT TO EMPHASIZE THAT I AM MOST CONSCIOUS OF OUR SAFETY RESPONSIBILITIES. IF FISCAL CONSTRAINTS APPEAR LIKELY TO IMPACT SAFETY, I WILL OF COURSE TAKE THE NECESSARY ACTIONS TO CORRECT THIS BY CUTTING BACK IN OTHER AREAS, OR IN THE EXTREME, BY CONSTRAINING THE FLOW OF AIR COMMERCE.

FISCAL YEAR 1987 REQUEST FOR APPROPRIATIONS

FAA'S FY 1987 BUDGET ESTIMATE REQUESTS BUDGET AUTHORITY OF $4,818 MILLION AND 47,045 DIRECT, FULL-TIME PERMANENT POSITIONS. THIS REPRESENTS AN INCREASE OF $33 MILLION AND A DECREASE OF 786 POSITIONS FROM FISCAL YEAR 1986 LEVELS AFTER APPLICATION OF SEQUESTRATION REQUIRED UNDER GRAMM-RUDMAN-HOLLINGS. WITH THIS GENERAL BACKGROUND, I WILL COMMENT ON EACH OF OUR 1987 ESTIMATES BY APPROPRIATION.

OPERATIONS APPROPRIATION

THE REQUEST FOR $2,800 MILLION, OF WHICH $2,100 MILLION IS FINANCED FROM THE TRUST FUND, REFLECTS AN INCREASE OF $159 MILLION OVER FISCAL YEAR 1986 AND A POSITION REDUCTION OF 786. INCREASES OCCUR IN AIR TRAFFIC--$46 MILLION, AVIATION STANDARDS--$30 MILLION, AND SYSTEMS MAINTENANCE--$51 MILLION. AIR TRAFFIC WILL INCREASE THE CONTROLLER WORK FORCE BY AN ADDITIONAL 500 AIR TRAFFIC CONTROLLERS TO REACH A GOAL OF APPROXIMATELY 15,000 IN THE CONTROLLER WORK FORCE BY THE END OF FISCAL YEAR 1987. PROJECTS SUCH AS THE EN ROUTE SPACING PROGRAM AND THE UPGRADING OF COMPUTER TECHNOLOGY FOR CENTRAL FLOW WILL BE CONTINUED IN ORDER TO REDUCE DELAYS AND CONGESTION. AVIATION STANDARDS REQUESTS AN ADDITIONAL 138

AVIATION SAFETY INSPECTION POSITIONS. THE FUNDING INCREASE FOR SYSTEMS MAINTENANCE IS PRINCIPALLY DUE TO THE LEASED COMMUNICATIONS COST OF RADIO COMMUNICATION LINKS AND FLIGHT SERVICE AUTOMATION ACTIVITIES. THE PACE OF TARIFF INCREASES AND ADDITIONAL REQUIREMENTS CONTINUES TO OUTSTRIP OUR ABILITY TO CONSTRAIN GROWTH IN THIS PROGRAM. SOME INCREASE IS ALSO DUE TO THE PROPOSED PILOT PROGRAM IN CONTRACT MAINTENANCE OF SOME AIRWAY FACILITIES EQUIPMENT IN SELECTED REGIONS. I AM CONCERNED WITH THE INCREASING AGE OF THE SYSTEMS MAINTENANCE WORK FORCE AND THE SKILL IMBALANCES WHICH ARE DEVELOPING. WE ARE CURRENTLY ASSESSING THE SITUATION AND WILL MAKE WHATEVER ADJUSTMENTS ARE NECESSARY TO ENSURE THE SUCCESSFUL IMPLEMENTATION OF THE NAS PLAN AND THE CONTINUED HIGH LEVELS OF SERVICE ON OUR EXISTING SYSTEMS.

FUNCTIONS PREVIOUSLY FINANCED UNDER A SEPARATE HEADQUARTERS ADMINISTRATION APPROPRIATION ARE PROPOSED FOR FUNDING WITHIN

THE OPERATIONS APPROPRIATION TO REDUCE ADMINISTRATIVE WORKLOAD AND ENHANCE PROGRAM FLEXIBILITY. A HEADQUARTERS ADMINISTRATION BUDGET ACTIVITY WILL RETAIN THE INTEGRITY AND VISIBILITY OF SOME OF THE KEY ADMINISTRATIVE FUNCTIONS FORMERLY FUNDED IN THE SEPARATE HEADQUARTERS ADMINISTRATION APPROPRIATION.

OPERATION AND MAINTENANCE
METROPOLITAN WASHINGTON AIRPORTS
(GENERAL FUND)

THE OPERATION AND MAINTENANCE OF WASHINGTON NATIONAL AND DULLES INTERNATIONAL AIRPORTS FOR FISCAL YEAR 1987 WILL REQUIRE $34.6 MILLION, AN INCREASE OF $2 MILLION.

WASHINGTON NATIONAL IS EXPECTED TO PRODUCE AN OPERATING PROFIT OF $18.4 MILLION AND WASHINGTON DULLES INTERNATIONAL $4.6 MILLION. AFTER DEDUCTION OF $8.7 MILLION IN DEPRECIATION AND INTEREST FOR THE TWO AIRPORTS, A NET PROFIT OF $14.3 MILLION SHOULD BE REALIZED. THE RATE STRUCTURE AND CONCESSION ARRANGEMENTS AT THESE AIRPORTS ARE ESTABLISHED TO ASSURE RECOVERY OF OPERATING COSTS, INTEREST EXPENSES, AND AN APPROPRIATE RETURN ON THE GOVERNMENT'S INVESTMENT. FEES COLLECTED FROM AIRPORT USERS ARE DEPOSITED AS MISCELLANEOUS RECEIPTS TO THE GENERAL FUND OF THE TREASURY.

CONSTRUCTION
METROPOLITAN WASHINGTON AIRPORTS
(GENERAL FUND)

THE BUDGET ESTIMATE FOR CONSTRUCTION AT WASHINGTON NATIONAL AND WASHINGTON DULLES INTERNATIONAL AIRPORTS FOR FISCAL YEAR 1987 TOTALS $7.0 MILLION. DUE TO THE PENDING LEGISLATION

WHICH WOULD TRANSFER THE AIRPORTS TO A LOCAL AUTHORITY, THE ESTIMATE WILL CONTINUE PRESENT OPERATIONS AND PROVIDE FOR REQUIRED ONGOING REPAIR AND REHABILITATION WORK. THIS WILL NOT PERMIT NEEDED DEVELOPMENT AT THE METROPOLITAN WASHINGTON AIRPORTS.

GRANTS-IN-AID FOR AIRPORTS
(AIRPORT AND AIRWAY TRUST FUND)

THIS BUDGET PROPOSES CONTRACT AUTHORITY OF $1,017.2 MILLION AND AN OBLIGATIONAL LEVEL OF $712.5 MILLION FOR AIRPORT PLANNING AND DEVELOPMENT. WE REQUEST A LIQUIDATING CASH APPROPRIATION OF $800 MILLION TO PAY OBLIGATIONS FROM PRIOR YEARS, AS WELL AS FOR THOSE EXPECTED TO COME DUE FROM FISCAL YEAR 1987 OBLIGATIONS.

FACILITIES AND EQUIPMENT
(AIRPORT AND AIRWAY TRUST FUND)

THE FAA'S 1987 REQUEST FOR THE FACILITIES AND EQUIPMENT APPROPRIATION IS $825 MILLION, $125 MILLION LESS THAN OUR FY 1986 APPROPRIATION AFTER SEQUESTRATION. IT IS THE SIXTH YEAR OF THE NATIONAL AIRSPACE SYSTEM PLAN.

FINANCED BY USER TAXES, THIS REQUEST REPLACES OBSOLESCENT, LABOR INTENSIVE FACILITIES WITH EQUIPMENT CAPABLE OF HANDLING

TRAFFIC PREDICTED FOR THE 1990'S. THE UNOBLIGATED BALANCE AT THE BEGINNING OF FISCAL YEAR 1987 IS $1.3 BILLION. THE FISCAL YEAR 1987 REQUEST, COMBINED WITH ANTICIPATED SPENDING OF THE BALANCE, WILL CONTINUE TO SUPPORT THE ESSENCE OF THE NAS PLAN.

TO COMPREHEND A MULTI-YEAR, CAPITAL APPROPRIATION LIKE THIS ONE, OBLIGATION OR PROGRAM LEVELS ARE OF EQUAL INTEREST WITH BUDGET AUTHORITY. WE PLAN TO OBLIGATE, THAT IS, PLACE UNDER CONTRACT - $865.3 MILLION IN FISCAL YEAR 1986. WE EXPECT TO OBLIGATE AT A SLIGHTLY HIGHER LEVEL IN FISCAL YEAR 1987 - $956.0 MILLION.

MAJOR NEW AND CONTINUING SYSTEMS OR EQUIPMENT REPLACEMENT PROGRAMS PROPOSED FOR FUNDING INCLUDE:

- DESIGN COMPETITION PRIOR TO ACQUISITION OF THE ADVANCED AUTOMATION SYSTEM (AAS)
- REPLACEMENT OF 24 AIRPORT SURVEILLANCE RADARS WITH IMPROVED ASR-9 RADARS
- ESTABLISHMENT OF TERMINAL DOPPLER WEATHER RADAR SYSTEMS AT 14 AIRPORTS AND ONE SUPPORT SYSTEM
- REPLACEMENT AND MODERNIZATION OF FOUR AIRPORT TRAFFIC CONTROL TOWERS
- MODERNIZATION AND CONSOLIDATION OF FLIGHT SERVICE STATIONS
- IMPLEMENTATION OF LORAN-C NAVIGATION IN THE NATIONAL AIRSPACE SYSTEM BY INSTALLING FIVE TRANSMITTERS AND ASSOCIATED CONTROL SYSTEMS TO FILL THE MID-CONTINENT SIGNAL GAP
- ESTABLISHMENT OF 56 MICROWAVE LANDING SYSTEMS
- SYSTEM ENGINEERING AND INTEGRATION CONTRACTUAL SUPPORT FOR IMPLEMENTATION OF COMPLEX AND HIGHLY VISIBLE NAS PLAN PROGRAMS

AS I INDICATED EARLIER, THESE PROGRAMS REPRESENT THE ESSENCE OF THE NAS PLAN, WHICH WILL PROCEED ON SCHEDULE. HOWEVER, SOME OF THE LESS CRITICAL PROGRAMS WILL ENCOUNTER SOME DELAY. THESE ARE:

- RADAR MICROWAVE LINK SYSTEM REPLACEMENT AND EXPANSION
- COMMUNICATION FACILITIES CONSOLIDATION
- REMOTE MAINTENANCE MONITORING SYSTEM

- o NATIONAL RADIO COMMUNICATION SYSTEM
- o TEST EQUIPMENT
- o AIRCRAFT AVIONICS

RESEARCH, ENGINEERING AND DEVELOPMENT (AIRPORT AND AIRWAY TRUST FUND)

WE ARE REQUESTING $134.5 MILLION FOR FAA'S RESEARCH, ENGINEERING AND DEVELOPMENT ACTIVITIES. ALMOST 70 PERCENT OF THE FUNDING REQUEST ADDRESSES FOUR MAJOR PROGRAMS. THESE PROGRAMS INCLUDE THE ADVANCED AUTOMATION PROGRAM (17%), THE VOICE SWITCHING AND CONTROL SYSTEM (25%), AUTOMATED EN ROUTE AIR TRAFFIC CONTROL (9%), AND AIRCRAFT SAFETY (17%). THE AIRCRAFT SAFETY WORK INCLUDES ADVANCED TECHNOLOGIES BEING EXPLORED FOR THE DETECTION OF EXPLOSIVES ON PERSONS, IN LUGGAGE, AND IN CARGO. OPERATIONAL TESTING OF THE TRAFFIC ALERT AND COLLISION AVOIDANCE SYSTEM ALSO CONTINUES.

ADDITIONAL FISCAL YEAR 1987 WORK INCLUDES EFFORTS TO IMPROVE THE ACQUISITION, DISTRIBUTION AND DISPLAY OF WEATHER DATA, THE EVALUATION OF NAVIGATION SYSTEMS, AVIATION ENVIRONMENTAL PROTECTION, MEDICAL RESEARCH INTO AIRCREW AND PASSENGER PROTECTION, AND CONTROLLER PERFORMANCE.

THIS CONCLUDES MY STATEMENT, MR. CHAIRMAN. MY STAFF AND I ARE PREPARED TO ANSWER YOUR QUESTIONS.

FISCAL YEAR 1987 BUDGET

Senator ANDREWS. Let me point out quite candidly that the dollar figures—and that is what we look at in the Appropriations Committee—leave us impressed that somehow or another the administration, and you as the representative of the administration, are dealing in figures that are straight out of Alice in Wonderland. As far as the travel needs of this Nation are concerned, Lewis Carroll could not have written it in a more ridiculous way.

We enacted $3.983 billion in appropriations for FAA last year. Now we have an adjusted figure because of Gramm-Rudman of $3.811 billion, as you know. You are now asking for an $80 million increase in the supplemental because you say that the level allowed under Gramm-Rudman is not enough. That is $3.891 billion. Now you are testifying for a fiscal year 1987 appropriation of $3.8 billion.

Mr. Administrator, do you really think that you can get by next year for less money than you are asking for this year, with the supplemental, and for considerably less than we appropriated for you without making serious cutbacks in the air travel of this Nation? Are you comprising safety beyond a reasonable point?

Mr. ENGEN. Mr. Chairman, I didn't say it was going to be easy. We are all faced with the terribie problem of a national deficit. The budget that we have submitted is pared to the absolute minimum.

I view it as probably one of the greatest challenges of our lives, but as I said to you previously, there is money there to keep the NAS plan essentially on schedule. There is money there to maintain the air traffic system, although it is going to be very close and we must watch every dollar. I am sure you would agree with me that we must be sure that we get the most travel for the dollar.

I will not allow air safety to degrade in the least bit. Secretary Dole is dedicated, as well as I, that we will not compromise in the matter of safety.

Senator ANDREWS. Are you saying, Mr. Administrator, that if you are left with this $3.8 billion, and if Gramm-Rudman takes a further hit, that may well be reduced by another $400 million—fortunately, the Senate, through the Senate Budget Committee and through the Senate as a whole, has passed a new budget resolution that will supplant Gramm-Rudman—but you are saying that you can meet the airline schedules of this country with safety, without any cutbacks in that scheduling, with this reduced figure?

Mr. ENGEN. That is what our budget is based on, Mr. Chairman; that we have sufficient moneys to meet the flow of air commerce.

OMB BUDGET REQUEST

Senator ANDREWS. I did not say it would be without challenge and we will get to that challenge in just a minute. But, what did you originally request of OMB?

Mr. ENGEN. The overall request of OMB was $5.329 billion.

Senator ANDREWS. In your judgment then, Mr. Administrator, you are telling this committee, and the Nation through this committee, that you requested of OMB $5.329 billion as necessary to run a safe airway system in this country. Now, you are testifying for $3.8 billion plus the portion from the trust fund, as you know.

Mr. ENGEN. The $900 million I think we are talking about, which is contract obligation limitation, is included in that $5.329 billion, Mr. Chairman.

Senator ANDREWS. OK. So you asked for $4.329 billion, originally? How much did OMB cut from your operations request?

Mr. ENGEN. We requested $2.933 billion and were granted $2.800 billion.

Senator ANDREWS. How about airport grants?

Mr. ENGEN. Airport grants, we went from $900 million to $712.5 million.

FURLOUGHS/EARLY RETIREMENTS

Senator ANDREWS. Mr. Administrator, the budget justification states that furloughs and early retirements are taking place this fiscal year as a result of Gramm-Rudman-Hollings. Exactly how many furlough days for which categories of FAA employees will be necessary, without the $80 million supplemental?

Mr. ENGEN. I would ask Mr. Weithoner if he would please come forward and respond directly to that. But it is significant.

Mr. WEITHONER. If you assume an $80 million deficiency, which is the total supplemental request, and try to make up that $80 million by furlough in so-called overhead jobs. That is, nonsafety operational jobs. You would save about $2 million a day by furloughing those 13,000 people. So you would have to have a 40-day furlough to save $80 million.

If you furloughed everyone in the FAA, it would take approximately 12 days, to save about $7 million a day by furloughing everyone.

Mr. ENGEN. Mr. Chairman, let me say in the matter of furlough that you cannot furlough part of the FAA without affecting the entire FAA. While we have a portion of the FAA targeted, the FAA is a whole cloth and if I furlough attorneys, for instance, they would not be able to prosecute enforcement actions. If I were to furlough secretaries, inspectors would not be able to do their job.

Senator ANDREWS. Are you going to exempt controllers, inspectors, maintenance, and security personnel?

Mr. ENGEN. I am.

Senator ANDREWS. If you exempt all of those, how many FAA employees will be furloughed?

Mr. WEITHONER. About 13,000.

Senator ANDREWS. What percent of the nonexempt work force does that represent?

Mr. WEITHONER. I am not sure I understand the question.

Senator ANDREWS. Well, you are exempting controllers, inspectors, maintenance, and security personnel. So they are not going to be furloughed. What percent of your total work force are they?

Mr. WEITHONER. They would represent between 60 and 70 percent.

Senator ANDREWS. OK, all of your cuts—the exempt are 60 to 70 perdent. Hopefully, you are taking all of the cuts, all of the furloughs out of the 30 to 40 percent of the work force. So what percent of that 30 percent of the work force do those furloughs represent?

Mr. WEITHONER. It would apply to all of the people, all of the 13,000 who are in the administrative, supervisory, managerial, supply-support personnel, and so on. Every person in that general occupational group would be furloughed under the scenario that I have described.

Senator ANDREWS. How many work-years of furlough are you anticipating?

Mr. WEITHONER. I would have to calculate it. It would be 40 days times 13,000 people.

Senator ANDREWS. 520,000. This is workdays. So what you are doing is you are cutting back—you guys do not have the slide rules any longer, but——

Mr. ENGEN. I might add, that this is why we are coming forward with the supplemental. I cannot see how we can continue——

Senator ANDREWS. Will any furloughs take place with the supplemental?

Mr. ENGEN. No, sir.

Senator LAUTENBERG. The Administrator had said something and I just wonder if we could refer to the last remark about you do not see how we could continue. Did I hear you correctly?

Mr. ENGEN. I said, Senator Lautenberg, if we had to take that portion of the work force and furlough it, it would have a severe impact upon the agency. It is a whole-cloth agency; each part depends on the other and it would have a severe impact on it.

FURLOUGH NOTICES

Senator LAUTENBERG. When will the furlough notices to the employees be sent out?

Mr. ENGEN. Hopefully never.

Senator ANDREWS. Well, based on shall we say the difficulties we have of moving that supplemental appropriation, we are going to have to be realistic. When do you plan to send out furlough notices?

Mr. ENGEN. We would probably have to send out furlough notices by the first of June, sir.

TRAFFIC DELAYS

Senator ANDREWS. Mr. Administrator, as we head into the heavy traveling season, can you outline the steps in place to avoid the delays experienced in past years? Is your traffic management currently in place? And, if so, why does the budget state that present traffic management capabilities are inadequate to manage flow? Again, part of Lewis Carroll.

Mr. ENGEN. Let me start on this, and then I will ask Mr. Luffsey, Associate Administrator for Air Traffic to pick up on it.

We have, Mr. Chairman, a magnificent air traffic control system. It is indeed functioning better today than it has in my 44 years of flying in this airspace. That doesn't mean that we don't have internal management problems that we are dealing with on a daily basis. It does mean that through central flow control, through traffic management in the centers and the terminals that we are providing a service today better than we have in the past.

Air traffic is a very strong organization. Having learned the lessons of 1984 and having sought and gained the support and cooperation of the airlines, we made dramatic changes in the delays during 1985 over 1984.

As I said in my opening remarks, I don't anticipate dramatic improvements over 1985, because we have taken the major steps that we can take with respect to system, short of greatly increasing the number of airports throughout the United States. Delays now are primarily a function of the macadam and concrete upon which to land. They are not a result of any traffic delays. They are primarily constraints due to airports.

AIRPORT IMPROVEMENT FUND

Senator ANDREWS. Mr. Administrator, that is fine to hear you say it is functioning better, but in your statement you say, "I anticipate it will be more difficult to reduce delays this year."

Mr. ENGEN. Yes; it may be more difficult to reduce delays this year because it takes time to put in high-speed taxiways; it takes time for these communities to realize that they must build new airports; it takes time to put in these improvements. That is what is driving the delays.

Senator ANDREWS. The level of delay has been reduced, but the airport budget request has also been reduced. The airport delays are not the only answer to what travelers are running into.

Mr. ENGEN. The airport improvement fund helps all communities throughout the Nation build airports. We are finding that we must prioritize the airports. There are some 350 that are primarily handling our traffic, and we are putting our emphasis upon ensuring that those airports will get improvements so that air commerce will continue to move.

The people at the low end of the priority scale, which are the small airports in remote places, will receive less attention.

FARGO DELAYS

Senator ANDREWS. Small airports in remote places. Let me develop a little case with you, Mr. Administrator. The experience that any American has with the air traffic control system is when he or she plunks herself down in the seat on an airliner and sees what happens.

Coming out of Fargo, ND, which is hardly a major metropolis in this country, important though it may be, and full of wonderful people, though it may be, and with a brand new airport, though it may—we have an inordinate amount of delays.

I can leave Fargo at 6:50 in the morning and fly to Minneapolis and routinely we have 20- to 25-minute delays. Mr. Administrator, Fargo is hardly a traffic choke point, and those 20- to 25-minute delays are getting to be more and more customary. Furthermore, almost half of the people on that plane going to Minneapolis have to offload and get on the plane to go to Chicago, New York, to Washington, to Florida, to wherever it might be, and they are all subject to missing their planes, causing constant problems with them.

What is your answer to this delay, where we never used to have delays, when you say your system is working better?

Mr. ENGEN. Mr. Chairman, you can't say there never used to be delays. There have been delays in the air traffic system since man first began to fly.

Senator ANDREWS. That is true, but not with the uniformity and consistency.

WEATHER DELAYS

Mr. ENGEN. Delays are presaged by weather. Delays can be brought on by traffic flow. Delays can be brought on the capacity of airports in which to land. Sixty-two to 65 percent of all delays are weather-related.

It is far better to take a delay on the ground and far safer if the weather is indeed bad at your destination.

I would like to ask Mr. Luffsey to talk specifically about the Fargo to Minneapolis leg because I think it is illustrative of problems——

Senator ANDREWS. Let me point out that these 20- to 25-minute delays that the passengers out of Fargo are experiencing on this morning flight and the other flights are getting to be uniform. I was up on the flight deck one afternoon coming out of there, talking to the crew. We took off, went down to Minneapolis, and the conversation I had with them—mind you, this was bluebird weather, Mr. Administrator—here comes another 20- to 25-minute stall. It is routine, a matter of course.

Mr. ENGEN. Once again, that comes back to airports, Mr. Chairman, and macadam and concrete available.

Senator ANDREWS. Mr. Administrator, you have these flights scheduled to take off in town A and land in town B at a certain time. And if those schedules are not proper for the airport capacity, why doesn't the FAA recommend that they be changed instead of shoving everything back, costing the traveling public millions of dollars and the airlines millions of dollars in unnecessary delays.

There has to be some way to get yourself out of this, doesn't there?

Mr. ENGEN. We are doing it for your safety, for your ability to fly safely. As you well know, aviation is one of the safest modes of transportation. It is that way because we take these precautions. It is that way because we ensure that when you do take off, you will fly directly.

Senator ANDREWS. That is the point I am getting to. Why is it that when you arrange for a plane to leave a certain town at 4 o'clock and arrive at another town at 5:30; you have known since that airline schedule has been published that that plane is going to be landing in town B at 5:30, taking off at 4 o'clock.

Why, when you have bluebird weather, the plane is late when it pushes off of the gate—why cannot the system accommodate it? That is no emergency.

Mr. ENGEN. It does in most cases, and we are dealing with exceptions that I would like to address, if I can.

Senator ANDREWS. I hope it is not just an exception against my part of the country—I suspect that my colleagues are having the same problems.

Mr. ENGEN. I want you to know that the Administrator of FAA has the same kind of delays.

Senator ANDREWS. I would hope so. I would hate like heck to see that you kept your planes on time and we were the ones who were being held back. [Laughter.]

REDUCING DELAYS

Mr. LUFFSEY. Mr. Chairman, without talking specifically to Fargo, ND, but talking about the total system, system philosophy and then ultimately break it down to a capacity consideration. In terms of total system, the numbers of delays have gone down. They went down by 17.4 percent last year. The first 3 months of this year has seen a slight increase over the equivalent quarter last year.

I think the point the Administrator made was that it is becoming much more difficult, even though we have an objective that says we are going to try to reduce those delays by another 10 percent this year. When one considers a reduction of 10 percent, we are talking about delays on the order of about 800—826 specifically—in a given day.

That is calculated against an operation count in excess of 100,000 operations, that is a minuscule amount. Any delay is really too much, but we are trying to drive the system with sufficient demand to match the available capacity. If I may use my hands to describe, we have a finite amount of capacity in the system occasioned by surface conditions, like the concrete availability and equipment availability. That is what it takes to keep a system going at a given capacity.

When the weather conditions are optimum and the runway configurations are optimum, we have that known capacity. We have a fixed demand. We overdrive the system by slightly more than the capacity.

Now, when we run into a condition, where the weather conditions change, the capacity goes down. If your weather conditions go below visual flight rule, to instrument flight rule conditions, capacity goes down further. If the weather changes as a function of wind, and therefore the optimum runway configuration can't be used, it goes down further.

As the system capacity diminishes, the delays go up. Most of our delays are caused by weather; on average about 67 percent of our delays are caused by weather.

If we drive traffic into known weather conditions, which are adverse, we are going to end up with a lot of people not making it—it is an unsafe condition. We are going to have to issue clearances that will hold aircraft in the air.

The entire system philosophy today is not to drive the system with so much traffic that we occasion airborne holding. In lieu of that, we prefer to distribute the holding on the ground. It is a more ordered, much safer condition than if it were to——

Senator ANDREWS. That all sounds wonderful until you get to the specific application. In this Fargo to Minneapolis segment that I know so well, the 20- to 25-minute delays are standard operating procedure that occur in bluebird weather—where I am on the flight deck or sitting back looking out a window—I know when the Sun is shining and when it is snowing or raining. In the sunshine, you get a 20- to 25-minute delay routinely.

Now, at another time when we have bad weather, I am wondering how you apportion the whole. I was on a Northwest flight, Flight 408, on Sunday, April 27. We went out on the runway. Republic leaves at the same time. Republic left. We stayed on the runway in Fargo for 1 hour and 50 minutes.

Now, as I gather it, planes were delayed going into Minneapolis at that point and because of thunderstorms, bad weather, they were delayed for some 30 to 35 minutes. Yet we were delayed for 2 hours. Who, in your mix machine down there in air traffic control, decides that one flight from one area will be discriminated against more than another? And what kind of a conscientious effort have you put together to make sure that if, because of weather, there is a half-hour delay, all passengers coming in are subject to a half-hour hold; anyone then can make their ongoing flight because all the connecting flights are running a half-hour late. But, if you come in on one that has been held for 2 hours, and all the rest have only been held for half an hour, you are strictly out of luck, as they used to say in the military.

How do you differentiate and how does it happen—and I suspect a number of other traveling passengers were on other planes that got discriminated against, or maybe I am just the one that gets the bad luck and gets a 2-hour delay in a half-hour uniform delay pattern.

Mr. LUFFSEY. Mr. Chairman, because that deserves an answer and because it is specific, we did look it up.

Senator ANDREWS. I am asking it so we can find out what kind of a procedure you have built into the system.

Mr. LUFFSEY. Yes, sir; I would like Mr. Jack Ryan to address this particular point. Jack.

Mr. RYAN. Mr. Chairman, on April 27, there was a ground delay program instituted for Minneapolis at approximately 2100 Z, and if you would bear with me, then I won't have to convert from G.m.t. to local time so that all times would be common, I would appreciate that.

At 2000 Z, that program was implemented—the arrivals at Minneapolis that were expected to arrive there between 2100 and 2300. Your estimated time of arrival, given no delay, was in the neighborhood of 2125. The original delay that you received—an 18-minute delay——

Senator ANDREWS. Could you use the microphone.

DELAYS AT MINNEAPOLIS CENTER

Mr. RYAN. The original delay that you received based on low ceiling and in anticipation of thunderstorms in the Minneapolis area was an 18-minute delay. You were proposed to take off at 2045 and your control departure time was 2103, or 1603 central daylight time. Republic 36 was proposed to go off 5 minutes before you, at 2040. He received a 7-minute delay for a 2047 controlled departure time. Since he was before you in estimated time of arrival at Minneapolis, his control departure time was also before you.

At 2055 G.m.t., approaches were stopped at Minneapolis Airport. They were stopped because first of all, we had a significant convective meterological message [SIGMET] that was sent out by the National Weather Service that said that there were tops to 45,000 feet, prediction of 3-inch hail and gusts to 70 miles per hour at Minneapolis-St. Paul.

Additionally, pilots would not make approaches to Minneapolis and in fact did not do so, until 2140, which was 45 minutes from the stop.

At this time arrivals were stopped at Minneapolis and pilots refused to make approaches. Also, knowing that there were 44 to 49 airplanes en route to Minneapolis—not on the ground, but en route—the Minneapolis center in coordination with central flow control in Washington stopped all traffic in the Minneapolis center for Minneapolis Airport, and stopped departures from other centers—Salt Lake, Denver, Kansas City, Chicago, and Cleveland, OH.

Those aircraft that were stopped on the ground were approximately 49 airplanes. Now at 2140, when those airplanes started making approaches at Minneapolis-St. Paul and the controllers at Minneapolis, being prudent, waited for the thunderstorm to pass and the initial arrival rate they started with was 30.

As the arrival rate increased to approximately 55, at 2215 G.m.t., which is another 35 minutes from when approaches started, they released all departures en route to Minneapolis at the first tier centers. At 2225 they released all departure within Minneapolis Center, which included Fargo, ND.

Now, of the 49 airplanes on the ground that are waiting to go, yours included, to Minneapolis-St. Paul, 2 were from Fargo, 11 were from Chicago, and there were 3 or 4 from Denver, as far as 500 or 600 miles away.

Now the real question is, Why did you get delayed approximately 1 hour and 50 minutes and why did Republic get delayed 7 minutes on the ground? First of all, Republic, by the way, was held 44 minutes in the air after he departed from Fargo going to Minneapolis. I think you can understand that thunderstorms are unpredictable, and when those thunderstorms moved across the airport and pilots refused to make approaches, all departures to Minneapolis were stopped.

Senator ANDREWS. The reason for the question, do you have in place a system that will even out the time delays so that all of the flights going in will come in with reasonably the same time—in this case, Republic had a 1-hour delay and Northwest had a 2-hour delay.

Mr. RYAN. If we had a perfect system, we could perfectly predict when the approaches at Minneapolis would stop. If we could perfectly predict that, it would have been our goal, as it has been since August 3, 1981, to have no plane holding in the air. If it would have been perfect, I would have launched airplanes from departure points in the first tier centers and Minneapolis to arrive at 2140, so that they would be metered out and nobody would have taken a delay on the ground and we would have controlled departure times based exactly on the 36-arrival rate that we had prior to the stop, which is about one every 1 minute and 40 seconds.

The intervention of the thunderstorm at 2140 and the subsequent stop of traffic for 40 minutes, threw the original plan off, which started at 1900—when we originally put our program out to reduce the acceptance rate at Minneapolis from 50 to 36.

Let me mention something. In the 2100 hour, when you were proposed into Minneapolis, with an arrival time of about 2125, the demand at Minneapolis-St. Paul was 71. The number of airplanes that landed was eight. We obviously have a problem with 63 more than we could handle.

I think that the operation that we conducted on that day happens three or four times a week. It is a typical spring thunderstorm operation.

I don't mean to belittle or minimize the inconvenience of the passengers, especially yourself, for an hour and 50 minutes, but the handling of the delays was routine.

Senator ANDREWS. I am not worried about me. I am just trying to find out what kind of pattern you have. I will get into that in a minute.

Let me recognize Senator Byrd. Do you have questions?

AIR SAFETY

Senator BYRD. Mr. Administrator, I am concerned about all safety and I am increasingly concerned about air safety.

That is why I am here this morning, in particular. The Chairman of the National Transportation Safety Board appeared before this subcommittee in March of this year. He was asked about the Board's investigations into the number and quality, number of inspectors, and the quality of maintenance surveillance.

Let me quote from his testimony. "We found the FAA surveillance report was not very effective because they do not have the manpower to do it very effectively." I am taking extracts from his testimony. FAA surveillance was further characterized as "no surveillance worthy of the name."

And I quote from that testimony, "We have found that there had been great increases in the number of air carriers, but there have actually been decreases in staff." He went on to say, "So in effect, we do not have a surveillance system out there that is supposed to be out there. There is no strategy on earth that will stretch the number of people that they have to give thorough surveillance with the task that is being assigned to them."

We talked briefly about near-misses. The FAA has reported that there were 777 incidents in which aircraft nearly collided in midair during 1985. This was almost 32 percent greater than in 1984. The number of such incidents involving major commercial airlines increased 75 percent, from 20 to 35.

It would appear that in 1985, in addition to being a record year for aviation disasters, it was also a record year for near-misses. In other words, 1985 could have been much worse.

Further a draft NSTB study of runway incursions indicates that in 1985, there were 85 incidents caused primarily by air traffic controller errors. There were 105 such incidents. To date, this year, there have been 40 such incidents attributed to traffic controller error, and 56 others attributed primarily to pilot error.

In other words, the total for this year is 96, and we are not even halfway through the year. These statistics certainly do not inspire confidence in the safety of our air system and it would seem to indicate that our air traffic control system is under serious strain.

It is my understanding that progress toward increasing the strength of the air traffic control work force is slower than anticipated due to higher washout rates for air traffic control recruits.

The Washington Post did a story on April 24, 1986, and indicates that by the end of March, the total increase in controller strength was 28, far short of the FAA goal of 500 for fiscal year 1986.

In addition, the Post reports the FAA has told its parent Transportation Department that it needs another $50 million to avoid furloughs of air traffic controllers.

I have a couple of questions. I will have several, Mr. Chairman, that I will wish to include in the record, but first let me say a few things.

I come from one of those isolated mountain States, and I used to be very much afraid to ride on airplanes. I have been here in Washington now 34 years, in the House and Senate. I used to drive hours and hours on roads that were not as good as they are now. I am talking about the interstates, and that is saying something with the kind of terrain we have in West Virginia.

But then there came a time, as I say, I drove hours and hours rather than take an airplane, and then I became comfortable riding an airplane. I came to know a little bit more about the technology; it improved greatly and I won't go into all that. But in the last 2 or 3 years, I am becoming afraid again. I am afraid now to ride on airlines.

I come as a very credible witness. I voted for deregulation of airlines and I have been sorry ever since that vote and I wish I had the opportunity to cast that vote over, but I don't. I hope one day that I might.

Immediately after deregulation, the rates went up in West Virginia, doubled, tripled, and quadrupled, and service went down. We have more commuters now; we have fewer of the larger major airlines. I read about these jaunts down to Jamaica and to islands in the Caribbean and to California—all of these cut-rate fares, stiff competition, and we are helping to pay for it in West Virgina and States like West Virginia—there are other States here that can say the same thing.

But those airlines are bound to be cutting corners when they are cutting rates like this; they are cutting corners, because the object is to make a profit. Now, I am concerned that they are cutting safety corners. I read about these near-misses, about these maintenance problems. I read about drug problems. I read about a door that is not closed here. I read about an airliner that lands with 30 or 60 seconds' worth of fuel. I read about a bolt that is off or a screw that is loose.

These things have gotten to me and I am concerned, as I see these increasing near-misses, these crashes and the statistics that I have read bear out this concern.

Let me ask a couple of questions and I will appreciate your answers. In the first round of Gramm-Rudman, the FAA lost $116 million. I understand that there is an internal request for an additional $50 million related to the loss of funds under Gramm-Rudman.

What effect will Gramm-Rudman have on the FAA efforts to add air traffic controllers in fiscal years 1986 and 1987, and keep in mind what

I said about the Washington Post story. Would you answer that question, first?

Mr. ENGEN. Yes, sir; you gave a good prologue. May I address a couple of points you made?

Senator BYRD. Yes; please do.

NEAR-ACCIDENT REPORTING

Mr. ENGEN. First of all, aviation is the only mode of transportation that records near-accidents, and that is good. Personally, having been on the National Transportation Safety Board before coming to the FAA, I created the requirement to improve our ability to report near midair collisions. And incidentally, we are doing the same thing with runway incursions as you mentioned.

I honestly believe, Senator Byrd, that the numbers of near midair collisions and numbers of runway incursions being reported are increasing because of that spotlight that we put on them. That is great. And I accept that. The rates are going up, Senator, and it indicates to me it is because we have a better reporting system, because people are more interested in reporting.

I don't mean to sweep it under the carpet, but the fact is there, Senator.

In 1985, we made those changes and that is what brought about the increase, as far as I can honestly tell. The air traffic system is more than a safety system, sir. The air traffic system does have problems inside with respect to human relations, management and overtime, but I am sure that does not have an impact on safety.

I want to assure you, sir, it is foremost in our minds to maintain the viability and the healthiness of that air traffic system.

With respect to the additional $50 million, I have not made that request. The record stands, sir, that it is an $80 million supplement that I really do need, and that will be forthcoming.

To answer your question specifically, what effect has Gramm-Rudman had upon getting air traffic—air inspectors—did you say inspectors or controllers?

IMPACT OF GRAMM-RUDMAN

Senator BYRD. What effect would Gramm-Rudman have on the FAA's efforts to add air traffic controllers. And then let us talk about inspectors, also.

Mr. ENGEN. OK. It will have no effect upon our getting air traffic controllers. We are increasing the numbers of air traffic controllers in the budget proposed before you for 1987 by some 480. We will end with an increase, such that by September 30, 1987, we will have about 15,000 air traffic control personnel. So Gramm-Rudman will not affect that.

Secretary Dole and I are dedicated to increasing the numbers of air traffic controllers, as we are to increasing the number of inspectors because, as you are aware, deregulation has had a profound effect upon the air transportation system of our United States. As many people have said, we didn't deregulate safety; we deregulated fares.

I was not around when deregulation was passed, in the sense that I didn't have this job, but I am here now and I do see this agency accommodating a totally different way of conducting air commerce in the United States. We are totally dedicated.

Secretary Dole authorized me to increase the number of safety inspectors by some 500 over 3 years' time. We are increasing in 1986, and we will indeed increase in 1987, and pick up the remainder in 1988. That is going to continue, Senator Byrd, and I will assure you that we are aware of the fact that there is a need for more controllers.

I have to look you in the eye, though, and tell you I don't have enough people to fly in every cockpit, or put a man behind every person who turns a wrench. This system is designed to operate on Federal Aviation Regulations.

We established the regulations; we will enforce the regulations. I think you will agree with me that the certificate actions we have taken in 1985, and are taking in 1986 far surpass anything that has been done before. The agency is trying to accommodate to what your concerns are; we are trying to bring those carriers into compliance with the Federal Aviation Regulations. They are complying, sir.

Senator BYRD. Mr. Engen, you have said a number of things. I want to draw attention to two things you have said. One, you say, that we are having better records and it shows that we are catching the near misses and we ought to take heart from this. And, second, you are saying that we are increasing the number of controllers, increasing the number of inspectors.

The Secretary of Transportation, Mrs. Dole, who, by the way is a fine Secretary—you are saying that you are authorized to ask for *x* number of new positions what-all. No. 1, as to what you have said about the original dollars. That is on paper. That all looks good, but that Washington Post story said that the number of controllers had increased by 28.

It is fine to say on paper that we are going to increase the number of controllers by 500, but we are actually going to increase 28; we are going to increase the number of inspectors—we heard that last year, as well. But I am told that the number of inspectors has reduced from 2,100 in 1978, to 1,400 in 1986.

That is a one-third reduction. What do you have to say about that? About the numbers of inspectors and the numbers of controllers by which you say you are actually increasing?

CONTROLLER INCREASE

Mr. ENGEN. I will respond to the first question. I would like to ask Mr. Broderick, Associate Administrator for Aviation Standards to respond to the inspection question.

I read the Washington Post, as well. I do not run my agency by the Washington Post. We are talking apples and oranges. When we say we increased the number by 28, that was the number, 14,000 controllers. We have turned the corner and we are building back up to our goal of 14,480 for the number of air traffic control personnel, including ATA's and controllers, developmentals and full performance level people. That is a battle, but that is in our scope, to arrive at 14,480 air traffic control personnel at the end of September this year.

I will guarantee you, sir, that we will get there.

Let's get specifically to air traffic controllers now. Over the last 6 months, we have increased the number of full performance level controllers, those people who are qualified to sit at many positions on the radarscope, by 455 as of March 31. That shows that the system is indeed building back up.

We will reach our total for air traffic controllers, 14,480.

May I have Mr. Broderick respond to the second part?

Senator BYRD. Yes.

INSPECTOR POSITIONS

Mr. BRODERICK. Senator, in 1978, the FAA was authorized somewhat under 1,600 actual inspectors in air carrier in general aviation operations and maintenance field. The exact number, according to our records, is an authorization ceiling at the end of the year of 1,580. At the present time, in 1986, with the increase of 200 inspectors, not counting 100 support personnel, it was in the continuing resolution—our authorized ceiling is 1,810. It is the highest number that has ever been in the FAA.

Senator BYRD. That is the authorized ceiling? That is on paper.

Mr. BRODERICK. We are staffing to 95 percent of that authorized ceiling which is the funding that we have requested, and always do.

The number that you spoke about, the two numbers, 2,800 and the 1,400, is a mistake that was made among the industry groups in town. I saw those same figures in the paper and became very concerned about the miscommunication that would occur.

I talked with the people responsible for it and they acknowledged that those numbers were not what they might have appeared to be, nor were they intended to represent flight standard safety inspectors. It was a combination of different numbers of Federal inspectors, they call them, which is not the safety inspectors.

Senator BYRD. All right, one question: How many Federal maintenance inspectors did you have in 1978? On board; not on paper. On board.

[The information follows:]

As of September 30, 1978, there were 554 aviation safety maintenance inspectors on board.

Mr. BRODERICK. I don't have good numbers on that. I could tell you it was less than 1,580. Probably something like 90 to 95 percent of that.

Senator BYRD. I would ask for those figures. How many do you have? Federal maintenance inspectors, on board, not on paper, now?

Mr. BRODERICK. Let me give you the exact number from our records. I can tell you that our plan is to staff to 95 percent of that——

Senator BYRD. You are talking about the plan. What is the number you have on board now? Not on paper.

Mr. BRODERICK. I don't know. Rather than give you an estimate, let me please provide it for the record. We will give you the exact number as of the end of the month.

[The information follows:]

As of April 30, 622 maintenance inspectors were on board.

Senator BYRD. Very well. I would say in the future, it would be well to be prepared to have the number. I have been on this Appropriations Committee for a long time and I have been a chairman of a few subcommittees. I want the figures, and the people who are interested in safety on this subcommittee, they want figures. We do not want what is on paper.

I am not saying that you should not say what you are authorized; but what we are interested in—what do you have out there, how many checking on these?

Let me close and I will be brief. The chairman has been very courteous to me and the other Members.

NUMBER OF CONTROLLERS

Senator ANDREWS. Bob, you are driving right on the right line. I just wanted to back you up, if you could ask that next question—the figures you are talking about make a lot of sense. This committee has been concerned—we were told last February that we had 14,300 controllers in the work force. We are going to add 500 more, to come to 14,800.

We asked the inspector general, Senator Byrd, to check out the figures. The number of controllers stays at about 14,000—this graph shows a level line. And we are far below the 14,800 level Congress set, and far below the 14,480 that the Department is talking about. I was talking earlier about the Minneapolis Center, but the Cleveland Center is one that you fly through—I will tell you what the problem is. In Minneapolis in 1981, we had 325 controllers in the work force; 71 percent of them, Senator, were full performance controllers. Now we have 259, only 46 percent of whom are full performance controllers in Minneapolis.

In Cleveland Center it is worse. In 1981, there were 543 controllers in that spot, necessary for West Virginia travel; 78 percent of them were full performance level controllers. Now we only have 395 controllers, of which only 49 percent are full performance level controllers.

The point is, in Minneapolis it is exactly the same as in Cleveland, and it is not in line, Mr. Administrator, with what you have been telling this committee because these people have not been put on board; much less the fact that the numbers are not there, the ability is not there, and the percent of full performance level is simply not there.

Senator, you are right on.

MAINTAINING LEVEL OF SAFETY

Senator BYRD. Well, Mr. Chairman, you have made my case. Mr. Engen, whether we are Republicans or Democrats, we are concerned about air safety. Newton's Law of Gravity works just the same for Republicans and Democrats—the majority, minority of the traveling public—the richest man, the poorest man.

You wear two hats. I think Congress ought to take a look at that. That is not your fault. You have the FAA to promote civil aviation, but it also has to be responsible for the safety of the traveling public. You wear two hats.

I am concerned. I see you on television and I see you here and I think you are trying to do the job well. I think you are caught in these two groups and sometimes I think they are incompatible, one with the other.

I want to do everything I can to improve the conditions of safety for the traveling public.

I will listen to you here and I will listen to you on television, and frankly, I have a problem in believing—I do not question your integrity. I have problems believing when we were told, when I am told and other millions of viewers of the tube out there feel the same as I do, I am sure—I have a problem believing that the safety is increasing, the number of inspections is increasing; we are getting along fine with the air controllers, and all of these increasing near misses are just attributable to having a better recordkeeping process.

I have trouble believing that, and I am not willing to believe it. I just think it is nonsense. I think we have to look at the facts and they disturb me.

I thank you, Mr. Administrator. I will submit additional questions.

Senator ANDREWS. Thank you. We will use those additional questions.

Quite candidly, what the traveling public sees in those delays means the system is overloaded. The statistics we are talking about right now show that the manpower simply is not in place. This committee has directed that manpower to be in place. You not only do not have the numbers, but you do not have the performance level.

That is really what concerns us, as it concerns every traveling American.

Senator Chiles.

Mr. ENGEN. Could I respond to that, please?

Senator ANDREWS. Sure.

Mr. ENGEN. With all due respect, my number one job, and the number one job of this agency, is to maintain safety. There is no doubt about that. I think if you look at the record over the last several years and see the civil penalties that have been ajudged against those who operate and maintain airplanes you will see that the first priority is to maintain safety.

I want to respond directly in facts; I don't deal in anything other than facts. When I talk about the health of the system, you are hearing from one who lives and has lived in the system for 44 years. I don't want to say that we don't have problems; we do.

They are sometimes great big ones. I am here to guarantee you that the system of safety is a very viable system and it is working.

I will provide the facts for the record. I will give you exactly what the facts are.

[The information follows:]

One measure of system safety which is directly under the control of the FAA is the number of operational errors. During calendar year 1985, operational errors were reduced by 25 percent from the peceding year.

Senator BYRD. Thank you. I am going to submit further questions. I think we have an excellent chairman; he is fair and fair to the witnesses here, and he is interested in air safety, and I thank you.

Senator ANDREWS. Senator Chiles.

MIAMI DISTRICT OFFICE INSPECTORS

Senator CHILES. I am a member of the Subcommittee on Investigation into Government Affairs, and we held several days of hearings on the issue of safety in the airline industry. During those hearings, we heard testimony that alleged that the southeast region, and specifically the Miami area, was severely understaffed and that inspections were easing as a result of the staffing problem.

One safety inspector, for example, Mr. William J. Ever, is responsible for guaranteeing that maintenance is up to snuff on 18 small airlines, 3 big-name passenger airlines, 2 cargo airlines, and 24 aviation repair shops. Nationwide, the inspection core for major airlines hit its peak in 1971, when it had 812 inspectors.

My understanding that the proposed number for 1987 is 790. Is that anywhere enough inspectors in this post-deregulation environment?

Mr. ENGEN. Senator Chiles, I would like to ask Mr. Broderick to respond specifically to that.

Mr. BRODERICK. You never ever have what you think is enough. Miami in itself is a special area. It was the largest standards district office that we had. Recognizing that, we split the office into two and moved a portion of those people to Ft. Lauderdale.

Senator CHILES. Mr. Broderick, could you please comment specifically?

Mr. BRODERICK. Sir, I don't have those numbers.

Senator CHILES. Ft. Lauderdale only covers general aviation.

Mr. BRODERICK. And commuters.

Senator CHILES. You still do not cover——

Mr. BRODERICK. We have about 100 people in the Miami flight standards district office. We do have a recruitment and retention problem there, in part, caused by the general hiring trends in the industry.

I can tell you that we have spent a considerable amount of time in the last 2 years structuring the budget process which we are using, which is driven by the demand in the field, rather than budget limitations in the sense of trying to establish the staffing requirements for flight standards.

I think we have come a long way. We are committed to having a requirement statement prepared each year that is in fact reflective of the requirements for inspectors as driven by the number of companies in the local area. We are adding to the staff across the country in line with the environment we have.

The specific person that you named, I am not familiar with, but the general problem that you define, too much work for an individual, is a problem that we now have. We are addressing that by two things; primarily training and staffing, adding people in accordance with the numbers approved by the Secretary.

The second is the redistribution of that work, as we have tried, for example, in Miami.

Senator CHILES. Well, what do we do about the general knowledge that is out there in the aircraft industry—and you can find it if you talk to pilots on the west coast, mid-America, North East—when you ask them, where are safety inspections tougher, they will all tell you that Miami is the easiest place. They will all tell you that.

That does not give us any comfort in south Florida. It does not give us any comfort for all of the people who travel through the area, and all of the airlines that we have, to find out that that is the place that is the easiest.

Mr. BRODERICK. That may have been a reputation—in fact, it is a reputation that Miami had in years past. I can assure you that reputation will not live, if it is still alive. In the last few months we have revoked three repair station certificates and imposed the largest fine in civil aviation history in the Miami office.

We are aware of the needs of the Miami office. We have top priority attention focused on it. We have just finished training seminars down there. We are doing everything we can to make sure that the people in the Miami region have in fact got the support that they need.

Senator CHILES. We know that Miami is the biggest safety surveillance office in the country; responsible for 145 repair stations, Eastern Airlines, a good chunk of Pan Am, and 62 other airlines for hire. I was concerned that while the Miami office is authorized for 99 employees, the number of people actually on board was 77.

How can this match the rhetoric that you are telling me, that you are staffing it? If you have 22 vacant positions—just to get up to your authorized strength——

Mr. BRODERICK. I believe you are right with those numbers. I believe we have a vacancy rate of 19, with 4 of them being clerical, 15 being inspectors in Miami, and I can assure you, sir, it is not because we are not providing the money to Miami, or the support. It is just the difficulty of recruiting and retaining people in large metropolitan areas in the United States.

Mr. ENGEN. Senator Chiles, we recognize what you are saying and we hope you recognize what we are saying. In the last 3 weeks we have put a new manager in down there, another initiative to bolster that particular office.

SAFETY HOT LINE

Senator CHILES. Well, the other thing we heard in the hearings, Admiral, was the testimony on safety violations, regarding maintenance, and the reluctance to complain or report for fear or reprisals not only from the airlines but from FAA.

What kind of programs does the FAA have in place where pilots can report safety violations without fear of reprisal?

Mr. ENGEN. Senator, we have in place offices that encourage open dialog. We have hot lines in place, a safety hot line, which has proven to be very beneficial. We have had well over 300 calls since we implemented the safety hot line last June.

Some of the calls are in the category of which you speak. Some of the calls are coming from passengers who see things. It has been increasing the number of inspections because we are getting information that we did not have before. When people ask for anonymity, we will indeed acknowledge that request.

Senator CHILES. Is the pilot going to be protected, or other employees of an airline from his company and from the FAA if they report a safety violation? What do you have in place to give them some protection?

Mr. ENGEN. For many reasons, not the least of which is the Freedom of Information Act, the FAA is a very visible and open part of society. If a newspaper or somebody wishes to request some information, we must provide it by law. That tends sometimes to create the problems you are alluding to.

It is not the intent within the FAA to divulge the names of people, and I know exactly what you are saying. There have been instances where people have been subject to retribution for reporting things. My goal is to get to each individual case and not have that.

SAFETY VIOLATION REPORTING ANONYMITY

Senator CHILES. Does the FAA have the ability to take action against a company that tries to take it out on an employee, and have you done that? Is it known out there in the industry that you would take that action?

Mr. ENGEN. Yes, sir; we have that ability. We think the proof of the pudding would be the certificate action that we have taken in the specific cases. These have been reported to us.

Senator CHILES. The proof of the pudding to the employee is if it gets him fired and nothing happens. That word goes out there pretty quickly and everybody understands that you had better get along, go along—roll along as you get along; you keep your mouth shut. That certainly does not promote anything to do with air safety.

Mr. ENGEN. This is why we have an anonymity clause, Senator Chiles; to enable an employee who feels that it is a threat to him or her. They should have that safety valve.

Senator CHILES. I have some other questions that I will submit.

Senator ANDREWS. Thank you, very much. Senator Kasten.

FAA INSPECTION CONTROL

Senator KASTEN. Mr. Chairman, thank you. As you and Admiral Engen will recall, last February in a meeting of the Senate Task Force on Air Transportation Safety, we discussed many areas which we felt the FAA was falling short in by allowing margins of safety to decline. It seems to me that this is the same thing that we are working with here today.

Fortunately, there have not been any major aircraft accidents in the United States for many months, but you can be sure—I think it almost certain—that one more air disaster would renew the kind of white-knuckle fear the American people have and have had about flight.

It is my understanding that the FAA is working hard on this, and I have listened with interest to the responses to the questions, Admiral, from a number of the committee members; that you are working hard, that you have recruited—you have 80,000 new applicants for air traffic control positions. I would say that I appreciate that effort.

You have testified before the special task force that we have, also, and it is moving in the right direction. I think all of us wish you well.

Today, let me express my grave concern over what the FAA is doing in the maintenance inspection area. Senators previously have touched upon this, but I now have specific information, today, that within the next 2 weeks, I am told that the General Accounting Office will be publishing a report on FAA inspection control. You alluded to that report, the GAO report, in your testimony.

I have heard the findings in that report are disturbing; maybe even fearful. According to the initial draft of that GAO report, the FAA is falling short in maintaining adequate inspection schedules. I have read the news of thousands of violations found by FAA inspectors on certain airlines. The GAO report concludes—and this is a draft, at least—that some airlines have not been inspected at all in the past year.

Most airlines strive to exceed the minimum safety standards; that is clear and we have discussed that there are a number of airlines which are not meeting those minimum standards, but most importantly, now, with some airlines not even being inspected at all—if this is true, I am concerned that there may be an incentive by some of these carriers to cut corners completely, and take a chance that they may not be caught at all or inspected at all, and they would skimp even more in quality.

I think it is absolutely essential that the FAA do everything possible to improve this record on inspections before any further lives are lost.

I recognize that you are working toward this goal, but if this information is true, that there are certain airlines that have not been inspected at all, I think we have a very, very difficult and serious situation which this committee and others will look at.

I believe it is important that we continue to support adequate funding of the FAA to carry out this mission. This committee has done so. We cannot afford to let the margin of error, of safety decline anymore, and frankly as long as the multibillion-dollar Aviation Trust Fund exists, no one can honestly say that we are underfunded for air safety.

AVIATION TRUST FUND

I do not buy the argument that we are underfunded, or that we are underfunded because of Gramm-Rudman. If we have to let air safety diminish because of Gramm-Rudman—I do not think that is a logical conclusion when we have the funds available, funds just waiting to be used.

I have joined several Senators in support of Senate bill 1979, which would, as you know, separate the Aviation Trust Fund from the budget process, ultimately to safeguard the surplus in the fund and keep it from being diverted to other areas.

Why has not this money been used, and will this separation from the budget process help get the money flowing to where it is needed? Particularly, are we going to be able to get money flowing to the inspection area?

Mr. ENGEN. Senator Kasten, let me start off and address some of your concerns, which I share with you. Specifically your concern that we continue to maintain safety.

I wake up in the morning and think of this, I dream about it at night, and I work at it all day. I have not seen the GAO report, so I will not comment on that. I will wait to review it.

You spoke of the margins of safety, and 1985 was indeed a tragic year with respect to deaths; one death is one too many, and I think recognizing that makes aviation safety such a dynamic thing. We all want to report near accidents. We all want to prevent even one death.

But as I look behind these tragic deaths, 1985 was indeed the safest year of operation for commuter airlines—ever—with respect to accident rates.

Senator KASTEN. I am going to interrupt you. I am familiar with the overall statistics. I have listened to you responses.

I am concerned if my information is correct; that there are certain airlines that have not been inspected at all. I have not read the GAO report either, but if it is true, it is going to be tremendously damaging to everyone involved, and I believe that we have a key responsibility to be sure that during these difficult times we have adequate inspection schedules, as well as adequate inspection standards.

My time has expired. Simply, I would say that I do not accept the idea that Gramm-Rudman is going to prevent us from making the adequate kinds of funding for aviation. I have particular questions with regard to a couple of projects in Wisconsin, which I will submit for the record.

Thank you.

AIRWAY SCIENCE GRANTS

Senator ANDREWS. Thank you. Mr. Administrator, the budget proposes the deletion of the set-aside in fiscal year 1986 of facilities and equipment funds for airway science grants. Why is this when you testified last year that this training was one of the best programs to get new people in the system? Why the deletion this year?

Mr. ENGEN. I would like to ask Mr. Weithoner to comment specifically on this. When you deal in priorities, Mr. Chairman, you have to do what you have to do.

The Airway Science Program is a very dynamic program, one that we want to keep going, but we have had to reduce the effort. It is a program that brings into the agency and the aviation industry fine young people. I know of your interest in this area, and I want to thank you for your support in the past and in the future.

Our intent is not to denigrate that. Our intent is only to get on with the severe budget constraints that we must face because of that deficit.

Senator ANDREWS. But do you not realize that this training is important, Mr. Administrator, in order to get the people? Senator Byrd, Senator Chiles, Senator Kasten, and I have been——

Mr. ENGEN. Yes; for raw recruits, it is indeed good and we are putting the money in safety, on inspectors and on our air traffic control. We are putting our money on those things which are needed to ensure safety. Only temporarily—I really emphasize only temporarily because I firmly believe in that program—are we reducing the funding.

Senator ANDREWS. If you firmly believe in it then you will be able to implement it if this committee gives you funds for carrying it out. Is that essentially correct?

Mr. ENGEN. Yes, sir.

NORTH DAKOTA TOWERS

Senator ANDREWS. Mr. Administrator, I have a couple of questions I want to ask before I turn it over to Senator Lautenberg. Does the FAA have any plans to close the Minot Air Traffic Control—or any other towers in North Dakota?

Mr. ENGEN. I am going to ask Mr. Luffsey to respond to that.

Mr. LUFFSEY. I know of no plans in that direction. I would like to review, and we would submit for the record, but I do not know of any plans.

[The information follows:]

There are no plans for closing any towers in North Dakota.

Senator ANDREWS. You have a 19-percent reduction in the Airport Grant Program. We talked about that earlier on, Mr. Administrator. Since this is a trust fund program and vital to aviation safety, why are airport grants being so constrained?

Mr. ENGEN. Again, Mr. Chairman, I would like the Deputy Associate Administrator for Airports, Mr. Quentin Taylor, to respond specifically. It becomes a matter of priorities and it becomes a matter of keeping the emphasis on those airports that need the most attention.

Mr. TAYLOR. Senator, you are quite correct; there has been a reduction in anticipated outlays with respect to airport development. We have been very, very careful, however, to maintain a level which would treat the safety needs of the airports, first.

What will happen, with the reduced outlays from the trust fund, as would be applied to airport development, may be this: We may not be able to treat the capacity needs of the airport system as much as we would like. But I would like to assure you that the system will be maintained—the airport system will be maintained in the safest manner possible.

Senator ANDREWS. What reduction, if any, will be made in North Dakota?

Mr. TAYLOR. I cannot respond specifically.

Mr. ENGEN. But we will.

Mr. TAYLOR. Yes.

Senator ANDREWS. You are going to supply for the record—specifically, you assure me at this point in time that if it is a 19-percent cut, whether it is changed by the Committee to 10 percent or no cut at all—that that is going to be pro rata across. You are not going to take a disproportionate cut out of the smaller States?

Mr. TAYLOR. No, sir; we will not do that.

Senator ANDREWS. It will be an across-the-board percentage cut.

Mr. ENGEN. Yes.

Mr. TAYLOR. Yes.

[The information follows:]

Specific project details will not be formulated until early in fiscal year 1987, but we currently expect to be able to fund high priority needs. The primary airport sponsors will receive a 19.5-percent reduction in their entitlement formula funds as a result of a reduction from the current year's Gramm-Rudman level of $885.2 million to the proposed $712.5 million level. The formula funds can be supplemented, however, with discretionary funds, as in the past, wherever necessary to meet high priority safety requirements. Lower priority items such as fencing and roadways will have to be deferred in North Dakota and elsewhere under a lower grant level. Also, very low activity locations throughout the country will be excluded from funding.

AIRWAY CONTROL

Senator ANDREWS. I appreciate, very much, Mr. Administrator, your coming here. I would like to recognize Senator Lautenberg at this point in time.

Senator LAUTENBERG. Thank you, Mr. Chairman.

Admiral Engen, I am always pleased to have the opportunity to air with you some of the concerns that we both share. I do not think you are the envy of many in terms of the job you have to do, in terms of complexity and resources.

Before the chairman leaves, I just want to tell him in the presence of this audience, that Fargo, ND, is not being discriminated against. In Newark and in New York, we get the same delays. As a matter of fact, because we have more flights, we have more of them.

Senator ANDREWS. Let me assure my friend that Fargo had better darn well not be discriminated against.

Let me go one step further; the only way you can use practical, working examples for what goes on out in the world of airway control is to use the example of where you have been. When I see regular 25-minute delays going from Fargo to Minneapolis, I know something is wrong.

Senator LAUTENBERG. How long is that flight?

Senator ANDREWS. It is a 45-minute flight.

Senator LAUTENBERG. We have the same thing from Newark to Washington, only I can say that this fanny has rested on a chair, in a seat, buckled up many times waiting to take off—what is the word——

Senator ANDREWS. Bluebird weather when everybody is flying and looking happy, we still have those delays. Senator, what that points out is the fact that the figures we see on our justification charts would show that we simply do not have the right number of controllers in place, nor do we have the numbers of controllers in place that this subcommittee has mandated be in place.

You know that is the reason for these delays. You keep going back and saying concrete and other things, but I cannot help but think it is the guy up in the tower looking at the scope—if there were a few more of them there, better trained, we would not have that delay.

Senator LAUTENBERG. You and I are going to agree.

Senator ANDREWS. We always agree.

Senator LAUTENBERG. Especially because you are the chairman.

Senator ANDREWS. I appreciate that. I appreciate your recognizing that. We will send some more North Dakota potatoes.

Senator LAUTENBERG. I have listened carefully, as all of us do to your statements, because it affects so many of the people about whom we are concerned, including our own families and ourselves. The description of delay—to concrete, and weather, of course, complicates things. There is no doubt about that, but there are usual delays. I fly between here and Newark typically at least twice a week.

There are usually delays of anywhere from 20 minutes to 45 minutes; clear sky, no perceptible interference from anything other than the basic traffic, the basic system. I keep wanting to jot down the specific delays—this Monday, or Tuesday I was on the 9:05 flight. It was a New York Air flight, and I am not blaming New York Air—they are as diligent about their schedule as anybody is, but it took off about 40 minutes late. Again, the sky was as clear as could be. No unusual winds, it was perfect. Same thing happened the week before—not the same flight. And the same thing happens when I go north, from here to Newark.

And while you may take some comfort, Mr. Administrator, in the fact that delays are reducing, the fact is there is a lot more traffic out there. Maybe the delays are experienced in particular places.

I was interested in the chairman's comments about Fargo. I would not have believed that there were delays out there because of the traffic patterns, but I guess when you get to Minneapolis, it is a major airport and the lines are no different than they are here.

But these delays are enormous. What I may do is just ask my constituents in New Jersey to record them for me and send them in. They would love to do it and I would like to pass it on to you.

But you should not really take any comfort from the statistics—I know you do not and I know you are conscientious about your job.

There are two areas of questioning that I have. One has to do with the things that we have been airing this morning in general, and that is the air safety problem, and the population of skilled people to operate the system.

And the other is the systems development, the AAS system that is underway, I have some interest and some questions to submit to you.

AIR TRAFFIC CONTROLLER POSITIONS

I want to make sure that as we leave this hearing there is an understanding of the number of air traffic controllers you have, how much experience they have and what your goals are for rebuilding the system.

I hear, again, that you are pleased to report the increase in request for controllers, but the fact of the matter is, we have a lot fewer than we had in 1981. Unless someone is willing to say that 1981 was a bloated year in the FAA, and they just had a lot of people sitting around, not performing well. Could that be true, by the way?

Mr. ENGEN. Not that they were not performing well. I believe the fact is we had staffing standards which did indeed leave a very liberal workday.

Senator LAUTENBERG. So, would you say it has improved to the extent that, having gone from 13,205 full performance level controllers in 1981, to 8,770 in March 1986, that that much fat was squeezed out of the system? So that the 8,700 could do the job without strain, without stress, without risk, as the 13,200 did in 1981?

Mr. ENGEN. Senator, I have had a number of conversations on this topic with you and I respect your views. Air traffic control is a stressful occupation and I would not say otherwise. There was stress in 1950, 1960, 1970, 1980, and there is going to be stress in air traffic control in 1990.

The fact that we do have 8,770 full performance personnel as opposed to 13,205 in 1981 is part of our concern. This is why you and I have had this conversation about the ratio of developmental controllers as to full performance people.

I want to assure you that the fact that we do have an inordinate amount of overtime in some selected centers, the fact that we do have several pressure points within the system, and we do have more overtime than we want or our employees want, that the system is indeed functioning as designed.

Our goal, of course, is to get the developmental controllers qualified as soon as possible. I know you have heard me say that we have increased some 450 over the last 6 months. So we are coming back and we are building that number.

I like to deal in facts and figures, and the facts you gave me are accurate.

Senator LAUTENBERG. So the fact that we are putting more people in the pipeline does not ensure us that at the end of that training and testing period, that we will continue to build as——

Mr. ENGEN. I would assure you, sir, that the goals that we have set are far more streamlined. I am dedicated to meeting these goals, and I could provide for the record some of our estimates, I can respond directly to you.

[The information follows:]

CONTROLLER WORK FORCE PROJECTION

[Based on data as of April 30, 1986]

	Apr	May	Jun	Jul	Aug	Sep
Beginning CWF	14,028	13,977	13,983	14,027	14,294	14,394
Accessions:						
New hires	97	119	143	236	199	192
Transfers to CWF	60	44	48	177	104	110
Total accessions	157	163	191	413	303	302
Losses:						
Training losses	68	76	59	51	69	36
Normal retirements	40	44	44	56	50	76
Temporary promotions	9	9	11	9	8	8
Reassignment out of CWF	14	13	15	10	12	61
Other losses	77	15	18	20	64	24
Total losses	208	157	147	146	203	205
Projected end of month CWF	13,977	13,983	14,027	14,294	14,394	14,491
Actual end of month CWF	14,036					

NOTE.—The projection for the controller work force was formulated in mid-April. Our progress in building the controller work force shows us ahead of the projection as of April 30, 1986. The projection is based on information and estimates supplied by the regions.

FILLING POSITIONS FROM POOL OF FIRED CONTROLLERS

Senator LAUTENBERG. The point that we make in our discussions is that, even your goal for a full staff have not been able to be realized, and we have had too many discussions about reaching out to the pool of selectively going back to the people who were fired and who may be available to open up the whole bag today.

But I still feel the same way about that. I do not want to reward anybody for breaking the law and I have no friends in there. My friends are the people who fly in the skies, and I would do anything I can—and I know we share that goal, even though our approach is quite different on this particular subject—of getting as many people as we can.

I do not know how you do not get so frustrated in not being able to fill the complement of people that you need.

We discussed have the same subject, and we have not even gotten to the one that has changed radically in the last, I think, days, and that is, what is going to happen with the tax law change in terms of retirement encouragement and things of that nature? You are going to be losing more people at a more rapid rate than many of us anticipate.

Here we have this pool of people, and I know we talked about morale being upset, or poor as a result of having even considered bringing back some of those people who were fired, but to me there is no morale worse that I could imagine than a fire department that has capable people available someplace and will not hire them and say to the firemen who are working there—listen, sorry; we do not like the guys out there who we can hire. As a consequence, we are going to keep this nice and slim and lean and everytime you go up a ladder into a burning building, you may be short a couple of hands.

I want to dramatize this because I think we are talking about that kind of a picture. The safety question, Admiral, you know very well that we can use statistics in lots of ways to make our arguments.

It is with due respect, honestly—1985 was a good, safe year. Am I right?

Mr. ENGEN. Not as long as there are any deaths. The point I made, sir——

Senator LAUTENBERG. We are talking about a relative thing, and there is risk. The fact that the near misses continue, and you hear about the Teterboro situation, where there was a combination of things, people killed, a lot of property destroyed—the fact of the near misses tell us more about what air safety is about than the actual recorded number of fatalities because any one of these could turn into an enormously tragic condition that would affect the statistics radically.

Mr. ENGEN. I will not deny what you are saying. We can find no statistical correlation between midair collisions and near midair collisions. It is unfortunate, but true, there is not a statistical connection that we can make. The midair collisions that tragically occur in this country occur predominantly around an uncontrolled airport, below 1,000 feet, probably in a traffic pattern, and involve two general aviation aircraft. There are generally between 25 and 35 of those each year.

That seems to be relatively constant, Senator.

CROSS OPTION FOR NEW YORK

Senator LAUTENBERG. I have other questions that I want to ask about the air traffic problem. I am interested in getting more experienced controllers.

As you know, in the New York area, we have had a 15-percent growth in air traffic; 54.3 percent at Newark. The performance levels are down significantly from previous levels. You instituted a cross-option program which would allow controllers to move to those areas that are most heavily used without risking their status at the former location.

The GAO notes that, of the 500 offers you got to participate in that program, only 30 expressed an interest in the New York region.

It has been suggested to me that one reason for the reluctance is the high cost of living. Have you explored the opportunity to use the COL differences for employees as a means of making New York more attractive place to come to work?

Mr. ENGEN. Senator, I would like to be very specific in addressing that. Let me ask Mr. Luffsey to respond directly to you, but I would say first to you that I have explored the cost of living. We are a Government agency, staffed by U.S. Government people, and so it has to be a Governmentwide policy.

Could I please ask Mr. Luffsey to explain to you specifically our success rate in that cross-option program?

Mr. LUFFSEY. As regards cross-option for New York, the GAO reported some 30 that were interested. As a matter of fact, we did not get as many in the cross-option program for New York as we would like. We are shooting for approximately 30 per facility, for a total of 210. We ended up with some 12 for the New York center.

All of those have indicated an interest, as I understand, and we have addressed specifically the New York center staffing problem. One way to address the full performance level problem in New York, and consequently the total staffing problem in New York, was to adjust the workload such that the workload is moved from where the people are and we would leave the people who are qualified there. We found that in seven sectors of New York, a good portion of the traffic transiting those sectors are originating within the New York area but actually transferred communications quickly to the Boston center.

In working with the two centers and the two regions, we were able to adjust the workload such that we freed up 52 total personnel, of which 26 are full performance level controllers to operate directly in the New York center area.

So the staffing imbalance problem was fixed by an adjustment in airspace in that particular case, in addition to the cross-option program.

Senator LAUTENBERG. Well, we continue to have the problem and you continue to need the personnel and I urge you to use whatever techniques you can to do that.

I am going to yield 10 minutes of my time to Senator D'Amato. Will that take care of your requirements, Senator?

Senator D'AMATO. It is more than enough.

Senator LAUTENBERG. We will continue our discussion.

ARSA SYSTEM

Senator D'AMATO. Admiral, we have received a number of complaints from airport users at Long Island MacArthur Airport regarding difficulties they are experiencing with the airport radar service area [ARSA] at Islip which began in 1985. This is an ongoing problem. Is the FAA considering shrinking the size of the Islip ARSA in response to the comments made by the users? What plans do you have? You do not have sufficient personnel there. You have pilots flying around, you have pilots being in held positions—what is supposed to be an improvement in safety has turned out to be a nightmare.

It seems to me that the FAA has an institutional attitude that says we have pride of authorship, and we are not going to change what we created. The FAA does not care about what is taking place. That is what is happening. Are we going to continue to have this problem, or are you going to do something about it?

Mr. ENGEN. Senator, the ARSA's were implemented for the pure and simple reason that we were having near midair collisions in certain areas and the ARSA's were put in in an effort to manage that near midair collision threat.

In implementing any new process, you run into resistance on the part of the user because it is something different. Because it also does compound——

Senator D'AMATO. I have 5 minutes. Let us not begin a filibuster.

Mr. ENGEN. I am not going to——

Senator D'AMATO. Islip, what are you going to do there? Are you going to shrink the ARSA, or are you going to keep it the same?

Mr. ENGEN. I will shrink it if in operational need it shows it needs to be shrunk, Senator, but——

Senator D'AMATO. When will we have a determination, Admiral?

Mr. ENGEN. I can give you a determination in 10 days.

OPERATIONS

Senator D'AMATO. That was easy.

I have some other questions on manpower et cetera, but I will not ask them today. However, I am going to say this to you. As Administrator of the FAA, you have a job where there are very few others who have a greater responsibility. It is a tough job as it relates to the responsibility for air safety.

I have to tell you that sometimes it takes an extraordinary amount of personal courage to stand up to the bureaucrats, to stand up to Miller at OMB, because this funding request is garbage. Do you know what I am talking about?

The issue is funding for the Federal Aviation Administration's operations. The funding request is for an additional $80 million, but the funds are to come from the National Railroad Passengers Corporation and from transit formula grants.

Let me suggest to you that you are not going to take the money from these areas. Meantime, you have to hire people, get inspectors, and get controllers. If you took this job just for the job—which I do not think is the case—then stand up for America. For God's sake, tell OMB that you need the money and stop jerking around with us. Do you know where there is excess money? It's in our transportation trust funds for aviation and transit. Why not stand up for your agency and say—give me some funds for the user fees collected in the trust funds that are now unspent.

If you want to be a good team player, then just keep doing business as usual. But in that case, we are not going to have adequate FAA staffing. We are not going to have adequate protection. And I am going to tell you, Admiral, I do not think you need the job that badly. What I am saying is, you can make the difference.

You have the ability to stand up and say to them—for God's sake, fund the programs and I will show you where you can get the money. This committee would support that.

This request is nonsense. We are not going to support it. However, do not come back later and say—the subcommittee turned down our request for additional money. You must take it from a realistic place.

Ask us to go to the airport trust funds and get some money from there. That is something we will consider. But do not talk about depleting Amtrak funds or vital transit formula funds.

If you say nothing, you are in essence supporting that kind of proposal, which is not worth the paper it is written on.

Mr. ENGEN. Senator, I am not going to argue with you.

Senator D'AMATO. I do not give you a lot of heat. I do not call you up day in and day out. I do not give you any trouble, but I want to tell you something—you know, it is wrong. And if you are going to march to their drums, you are part and parcel of this cabal, and it is a cabal.

Mr. ENGEN. You have exceeded my job description. My job is to say I need the money. I don't go out and say take it from here and take it from there.

Senator D'AMATO. OMB is telling you areas where the money is not going to come from, and you just go along with it. Thus, you are acquiescing in this unfortunate policy. I think that if you tell the committee you need some more money, from appropriate sources, we will get you the funds.

Mr. Chairman, before I yield to my colleague, Senator Abdnor, I am going to ask him to indulge me with a few more minutes of time so that I may make a very special announcement. A young man has just come into the hearing room who is a symbol of the can-do spirit of America.

This young man was raised in a little village called Island Park, Long Island, where I grew up. I rented an apartment in his family's house for 7 years when I came out of law school. He even babysat for my daughters, but he does not want to admit that now. He is a great athlete.

He distinguished himself as an outstanding pitcher for the Kansas City Royals; he is a 20-game winner, 3 years, I think, in a row. He was the winningest pitcher in the league when, unfortunately, an accident happened. He severely injured his knee, tearing ligaments and tendons, and people said he would not come back. After 3 years, four operations, he pitched for the first time, pitched a 1 to 0 shutout, three-hitter. In his last five games, I think he has given up three earned runs—with any hitting at all he would have won all five games.

I hate to say that he was my former babysitter, but let's give a wonderful tribute to an American who overcame great obstacles, Dennis Leonard, who today celebrates his 35th birthday. Dennis, I am pleased to see you here. [General applause.]

We are delighted to have Dennis with us to celebrate his birthday. He is going to be pitching against Baltimore Saturday night, and if anyone wants to see a great pitching performance, go on out to the park.

Thank you, Admiral, for your testimony. I also thank the chairman and Senator Abdnor.

SOUTH DAKOTA AIRPORT FUNDS

Senator Abdnor. Thank you, Senator D'Amato, and thank you, Mr. Chairman, for giving me one brief second here. First, let me congratulate Mr. Leonard on his birthday. I wish I did not have to go home and campaign. I would probably be out at the ballfield watching him.

A lot of us have been somewhat parochial in our questions, but no one is going to be more so than I. I just want to ask you this, Admiral, where are we on this delay by the FAA in holding up funds which are already appropriated? What is the game plan for the future? How long are we going to have to wait?

I do not have any major airports in South Dakota, but Rapid City and Sioux Falls are where it all happens if you want to leave South Dakota.

Rapid City has come a long way with a small airport. They have plans for expansion—but now those plans are suspended. They have started work but there is a snag on $1.4 million because of some delay back here. They bonded themselves for the new airport and now it is being held up. It is a sad situation.

I stuck my neck out and they convinced me I should vote for that 1-cent gas tax. Everybody back home climbed all over me and said they would never see the results of it. We are proving them right, I guess.

I just want to know, what is your plan? How are we going to get this money that they planned for, were told they were going to have, and now have a big long delay going on. Tell me about it.

Mr. Engen. One of the problems is taking care of all of the requests.

Senator Abdnor. But you have money held back.

Mr. Engen. We have requests 2.5 times the funds available. I am going to ask Quentin Taylor to respond directly to your question. Our goal is to get these airport funds out to the local communities as fast as possible. My goal is to improve the airports in the United States.

And South Dakota is vital just as much as any other State in this Nation. Quentin, can you offer any specifics?

Senator Abdnor. They were told they were going to have it. That is why they bonded themselves for the airport out there. We are not a flush State. It is tough on these citizens out there. But it was important for them to do it and they were told the money was going to be there. I just wonder—isn't the money being held back? Are you telling me that it is all accounted for?

Mr. Taylor. Senator, this fiscal year 1986, we have had to lower the amount of money that we would apply to airport development.

Senator Abdnor. Why?

Mr. Taylor. That was done, again addressing our deficit problem, in general.

Senator Abdnor. The overall?

Mr. Taylor. Yes.

Senator Abdnor. The national deficit?

Mr. Taylor. Yes, sir. Of course, we had to address the Gramm-Rudman-Hollings needs. What that meant was that our initial outlay plans for 1986 had to be reduced by about 6 percent overall and that causes us to have to go back to some municipalities, cities, airport sponsors, letting them know that they would not be provided with as much money as we had expected earlier in the year.

USER FEES

Senator ABDNOR. What did happen to all the money they collected, the user fees that we collect, the gas tax; where does it go?

Mr. TAYLOR. Those revenues go into the trust fund.

Senator ABDNOR. Did we lend it out to some other part of the Government?

Mr. TAYLOR. No, sir; those are dedicated moneys and they are not spent for other purposes.

Senator ABDNOR. I will tell you, I am sorry I ever voted for more dedicated money because—this situation——

Mr. ENGEN. As an explanation, if I might add, 91 percent of the trust fund moneys come from the 8-percent ticket tax. An additional 6 percent comes from the 12 to 14 cents per gallon that general aviation pays for its gas, and the residue making up 100 percent of the trust fund comes from the $3 international tax to depart the country.

That by law is to be used to fund equipment and AIP, airport improvement projects. By law, also, we are required to take our operating funds from the general fund.

Senator ABDNOR. Where does that all go? Those dollars?

Mr. ENGEN. We are a very people-intensive organization. We are using the general fund dollars fully. There is a residue amount in the trust fund. I have to say that the obligated balance in the trust fund is very high, and I have not figured out the amount right now, but I would like to provide the facts for the record. There is an unobligated balance of about $1.7 billion in the trust fund.

Some people will argue with that; that is an approximate figure.

Senator ABDNOR. Let me ask you this, you are going to have a supplemental one of these days that has dollars in it. Once Congress provides that supplemental, how soon will my airport be funded?

Mr. ENGEN. Unfortunately, that supplemental is for Operations so that we will not have furloughs on the part of the agency and we can continue our safety and airport programs. That supplemental will not add to the Airport Improvement Program.

DISCRETIONARY FUNDS

Senator ABDNOR. Is there any discretionary money left?

Mr. TAYLOR. Yes, Senator; there are discretionary moneys left. They will be highly taxed, and that is, there is a great demand for those discretionary moneys. But let me suggest this to you, as the fiscal year winds down to a close, discretionary moneys do occasionally become available——

Senator ABDNOR. I have to wait until October or the last of September to get the money?

Mr. TAYLOR. Possibly.

Senator ABDNOR. Let me ask you, are you improving other airports with dollars already—by going ahead——

Mr. TAYLOR. I can honestly say, sir, that we have fairly and equitably cut across the Nation, placing the priorities as we have previously described.

I would like, as a courtesy, to respond directly to you and provide you with specifics on——

Senator ABDNOR. I wish you would. We are in the middle of a 3-year program—right in the middle of it. These people have bonded themselves. They are sitting out there with a half-planned thing sitting on the runway—if we go ahead and approve another one, we will wait forever trying to build the thing.

If that is the way we are going to operate, I hope you froze any new development from here on in—that someone decides what they are going to do with the money. It is not fair for them to sit around when the money has been approved. They took your agency at their word. They have bonded the city—let me tell you, there is a lot of grumbling out there, on this bonded indebtedness. They cannot move ahead until we do something. We gave the approval for it once. It is hard for them to understand that, particularly if they find out that other cities are now being approved while we have to fight with somebody over the few dollars we apparently have because it is a new approved project. That is not being very fair in my mind.

Mr. ENGEN. I would be very pleased to assure you that we are indeed treating people equitably across the Nation.

Senator ABDNOR. Give me the names of the other airports who have gotten in the last 6 months—somebody had better get their act together. You cannot keep approving less dollars and have everybody sit around waiting. This is pretty important.

Mr. ENGEN. It is important. We have almost 4,000 airports that we are dealing with, and I would like to give you representative fields so you can have a feel for exactly how fair and equitable the treatment is.

Senator ABDNOR. Thank you, very much.

[The information follows:]

Following are our grants so far this year for new projects that received discretionary funds.

NEW FISCAL YEAR 86 AIP DISCRETIONARY GRANTS THRU 5-15-86

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
ALABAMA			
ALEXANDER CITY THOMAS C RUSSELL FIELD	187,852	40,388	228,240
MUSCLE SHOALS MUSCLE SHOALS	81,388		81,388
SYLACAUGA LEE MERKLE FIELD	154,228	720,729	874,957
SUBTOTAL	423,468	761,117	1,184,585
ARIZONA			
TEMPE NEW	36,424		36,424
SUBTOTAL	36,424		36,424
ARKANSAS			
BATESVILLE BATESVILLE REGIONAL	41,589		41,589
HARRISON BOONE COUNTY	196,100		196,100
JONESBORO JONESBORO MUNICIPAL	196,000		196,000
NORTH LITTLE ROCK NORTH LITTLE ROCK MUNICIPAL	720,000		720,000
SUBTOTAL	1,153,689		1,153,689
CALIFORNIA			
CLOVERDALE CLOVERDALE MUNICIPAL	35,730		35,730
DORRIS BUTTE VALLEY	5,670		5,670
EL MONTE EL MONTE	247,950		247,950
FORT JONES SCOTT VALLEY	5,490		5,490
HAPPY CAMP HAPPY CAMP	5,490		5,490
MONTAGUE SISKIYOU COUNTY	39;330		39,330
TEMECULA TEMECULA (NEW)	2,000,000		2,000,000
WEED WEED	34.020		34,020
SUBTOTAL	2,373,680		2,373,680
COLORADO			
DENVER SMSA	110,273		110,273

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
DENVER CENTENNIAL	1,660,000		1,660,000
DENVER FRONT RANGE	480,000		480,000
PUEBLO PUEBLO MEMORIAL	1,430,000		1,430,000
SUBTOTAL	3,680,273		3,680,273
CONNECTICUT			
HARTFORD HARTFORD BRAINARD	128,700		128,700
SUBTOTAL	128,700		128,700
FLORIDA			
BUNNELL FLAGLER COUNTY	37,000		37,000
FORT LAUDERDALE FORT LAUDERDALE-HOLLYWOOD INTE	1,127,620	2,145,053	3,272,673
FORT PIERCE ST LUCIE CO INTERNATIONAL	58,000	766,000	824,000
FT. LAUDERDALE FORT LAUDERDALE EXECUTIVE	696,000		696,000
IMMOKALEE IMMOKALEE	48,000		48,000
LAKELAND LAKELAND MUNICIPAL	650,900		650,900
MIAMI MIAMI INTERNATIONAL	3,637,799	4,318,790	7,956,589
MIAMI OPA-LOCKA	995,000		995,000
NEW SMYRNA BEACH NEW SMRNA BEACH MUNICIPAL	61,000	294,000	355,000
OKEECHOBEE OKEECHOBEE COUNTY	40,000	180,000	220,000
ORLANDO ORLANDO EXECUTIVE	266,600		266,600
ORMOND BEACH ORMOND BEACH MUNICIPAL	22,000		22,000
PANAMA CITY PANAMA CITY-BAY COUNTY	16,392	902,408	918,800
PUNTA GORDA CHARLOTTE COUNTY	1,063,000		1,063,000
SEBASTIAN SEBASTIAN MUNICIPAL	38,000		38,000
ST. PETERSBURG ALBERT WHITTED	273,000		273,000
TITUSVILLE SPACE CENTER EXECUTIVE	454,000		454,000
VERO BEACH VERO BEACH MUNICIPAL	731,600		731,600
SUBTOTAL	10,215,911	8,606,251	18,822,162

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
GEORGIA			
ATLANTA METROPOLITAN AREA	75,000		75,000
ATLANTA CHARLIE BROWN COUNTY	91,000		91,000
ATLANTA WILLIAM B HARTSFIELD-ATLANTA I	6,065,976	12,434,024	18,500,000
COVINGTON COVINGTON MUNICIPAL	148,425	378,090	526,515
HAMPTON HENRY COUNTY/BEAR CREEK	527,803		527,803
LAGRANGE CALLAWAY	114,476	184,162	298,638
LAWRENCEVILLE GWINNETT COUNTY	2,457,989		2,457,989
STONE MOUNTAIN STONE MOUNTAIN-BRITT MEMORIAL	39,600		39,600
TOCCOA TOCCOA, RG LE TOURNEAU FLD	26,600	140,400	167,000
VALDOSTA VALDOSTA REGIONAL	51,000		51,000
SUBTOTAL	9,597,869	13,136,676	22,734,545
IDAHO			
LEWISTON LEWISTON-NEZ PERCE COUNTY	79,441		79,441
SUBTOTAL	79,441		79,441
ILLINOIS			
BLOOMINGTON BLOOMINGTON-NORMAL	318,150		318,150
MT. VERNON MT. VERNON-OUTLAND	134,100		134,100
SUBTOTAL	452,250		452,250
INDIANA			
STATE OF INDIANA	179,408		179,408
INIDIANAPOLIS METROPOLITAN	666,697		666,697
SUBTOTAL	846,105		846,105
IOWA			
CLINTON CLINTON MUNICIPAL	43,200		43,200
CRESTON CRESTON MUNICIPAL	285,928	368,822	654,750
OTTUMWA OTTUMWA INDUSTRIAL	39,690		39,690
SPENCER SPENCER MUNICIPAL	290,000		290,000

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
WATERLOO WATERLOO MUNICIPAL	2,278	517,422	519,700
SUBTOTAL	661,096	886,244	1,547,340
KANSAS			
SEDGWICK, HARVEY AND BUTLER CO	24,990		24,990
ATCHISON AMELIA EARHART	27,000		27,000
HUTCHINSON HUTCHINSON MUNICIPAL	1,109,880		1,109,880
LIBERAL LIBERAL MUNICIPAL	231,550		231,550
MEADE MEADE MUNICIPAL	18,000		18,000
OLATHE JOHNSON COUNTY INDUSTRIAL	800,000		800,000
SUBTOTAL	2,211,420		2,211,420
KENTUCKY			
COVINGTON GREATER CINCINNATI INTERNATION	1,510,041	653,958	2,163,999
MAYFIELD MAYFIELD-GRAVES COUNTY	63,452	433,548	497,000
OWENSBORO OWENSBORO-DAVIESS COUNTY	111,600		111,600
PADUCAH BARKLEY FIELD	2,354		2,354
SUBTOTAL	1,687,447	1,087,506	2,774,953
LOUISIANA			
NEW ORLEANS	100,000		100,000
BASTROP MOREHOUSE MEMORIAL	36,000		36,000
SUBTOTAL	136,000		136,000
MARYLAND			
BALTIMORE GLENN L MARTIN STATE	310,113	3,599	313,712
SUBTOTAL	310,113	3,599	313,712
MASSACHUSETTS			
STATE OF MASSACHUSETTS	450,000		450,000
NANTUCKET NANTUCKET MEMORIAL	125,595		125,595
WORCESTER WORCESTER MUNICIPAL	262,980		262,980
SUBTOTAL	838,575		838,575

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
MICHIGAN			
MUSKEGON MUSKEGON COUNTY	1,661	657,139	658,800
SUBTOTAL	1,661	657,139	658,800
MINNESOTA			
BRAINERD BRAINERD-CROW WING COUNTY (WFW	175,000		175,000
SUBTOTAL	175,000		175,000
MISSISSIPPI			
JACKSON ALLEN C THOMPSON FIELD	476,560	687,431	1,163,991
MADISON BRUCE CAMPBELL FIELD	29,250		29,250
MERIDIAN KEY FIELD	235,469		235,469
TUPELO C D LEMONS MUNICIPAL	383,530		383,530
SUBTOTAL	1,124,809	687,431	1,812,240
MISSOURI			
KANSAS CITY DOWNTOWN	1,507,500		1,507,500
ST LOUIS LAMBERT-ST LOUIS INTERNATIONAL	4,178,111	6,461,892	10,640,003
SUBTOTAL	5,685,611	6,461,892	12,147,503
MONTANA			
BILLINGS BILLINGS-LOGAN INTERNATIONAL	417,187	2,456,995	2,874,182
BUTTE BERT MOONEY	289,800		289,800
KALISPELL GLACIER PARK INTERNATIONAL	14,915	389,185	404,100
SIDNEY SIDNEY-RICHLAND MUNICIPAL	112,500		112,500
SUBTOTAL	834,402	2,846,180	3,680,582
NEBRASKA			
BROKEN BOW BROKEN BOW MUNICIPAL	62,804	378,196	441,000
GRAND ISLAND MID-NEBRASKA REGIONAL (NEW)	108,000		108,000
LINCOLN LINCOLN MUNICIPAL	186,712	1,369,388	1,556,100
OMAHA EPPLEY AIRFIELD	1,710,302	3,590,287	5,300,589
SUBTOTAL	2,067,818	5,337,871	7,405,689

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
NEW HAMPSHIRE			
LACONIA LACONIA MUNICIPAL	49,350		49,350
SUBTOTAL	49,350		49,350
NEW MEXICO			
ALBUQUERQUE ALBUQUERQUE INTERNATIONAL	2,700,000		2,700,000
AZTEC AZTEC MUINICIPAL (NEW)	58,500		58,500
SUBTOTAL	2,758,500		2,758,500
NEW YORK			
FARMINGDALE REPUBLIC	1,325,430		1,325,430
NIAGARA FALLS NIAGARA FALLS INTERNATIONAL	1,044,930		1,044,930
SUBTOTAL	2,370,360		2,370,360
NORTH CAROLINA			
ALBEMARLE STANLY COUNTY	42,326	475,674	518,000
FAYETTEVILLE FAYETTEVILLE MUNICIPAL/GRANNIS	56,290		56,290
GREENVILLE PITT-GREENVILLE	46,263		46,263
MANTEO MANTEO	90,749	411,874	502,623
SALISBURY ROWAN COUNTY	47,997		47,997
SHELBY SHELBY MUNICIPAL	42,660		42,660
SMITHFIELD JOHNSTON COUNTY	75,230	246,870	322,100
SOUTHERN PINES MOORE COUNTY	51,516		51,516
SYLVA JACKSON COUNTY	95,000		95,000
SUBTOTAL	548,031	1,134,418	1,682,449
NORTH DAKOTA			
WILLISTON SLOULIN FIELD INTERNATIONAL	98,334		98,334
SUBTOTAL	98,334		98,334
OHIO			
STATE OF OHIO	267,835		267,835
COLUMBUS OHIO STATE UNIVERSITY	903,412		903,412
MANSFIELD MANSFIELD LAHM MUNICIPAL	304,560		304,560

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
WOOSTER WAYNE COUNTY	49,500		49,500
SUBTOTAL	1,525,307		1,525,307
OKLAHOMA			
BRISTOW JONES MEMORIAL	31,050		31,050
DUNCAN HALLIBURTON FIELD	47,963		47,963
HINTON HINTON AIRPORT (NEW)	38,576		38,576
MIAMI MIAMI MUNICIPAL	131,636	335,376	467,012
NORMAN UNIVERSITY OF OKLAHOMA WESTHEI	500,000		500,000
SUBTOTAL	749,225	335,376	1,084,601
OREGON			
MADRAS CITY-COUNTY	32,175		32,175
NORTH BEND NORTH BEND MUNICIPAL	72,000		72,000
PORTLAND PORTLAND INTERNATIONAL	14,832	2,795,361	2,810,193
SCAPPOOSE SCAPPOOSE INDUSTRIAL AIRPARK	318,798		318,798
SUBTOTAL	437,805	2,795,361	3,233,166
PENNSYLVANIA			
COATESVILLE CHESTER COUNTY-G. O. CARLSON	402,840		402,840
WASHINGTON WASHINGTON COUNTY	1,080,000		1,080,000
SUBTOTAL	1,482,840		1,482,840
SOUTH CAROLINA			
HARTSVILLE HARTSVILLE MUNICIPAL	6,235	62,351	68,586
NORTH MYRTLE BEACH GRAND STRAND	79,443	82,557	162,000
ROCK HILL BRYANT FIELD	480,000		480,000
SUMMERVILLE DORCHESTER COUNTY (NEW)	60,417	35,656	96,073
SUBTOTAL	626,095	180,564	806,659
TENNESSEE			
JACKSON MCKELLAR FIELD	798,700		798,700
MEMPHIS GENERAL DEWITT SPAIN	276,500		276,500

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
MILLINGTON CHARLES W. BAKER	201,400		201,400
NASHVILLE JOHN C TUNE (NEW)	963,000		963,000
NASHVILLE NASHVILLE METROPOLITAN	1,000	2,115,662	2,116,662
SUBTOTAL	2,240,600	2,115,662	4,356,262
TEXAS			
AMARILLO TRADEWIND	625,000		625,000
BEAUMONT BEAUMONT MUNICIPAL	36,000		36,000
COLLEGE STATION EASTERWOOD FIELD	697,007	302,993	1,000,000
CONROE MONTGOMERY COUNTY	800,000		800,000
FORT WORTH SOUTH FORT WORTH (NEW)	2,500,000		2,500,000
KILLEEN KILLEEN MUNICIPAL	1,283,930		1,283,930
MCKINNEY MCKINNEY MUNICIPAL	850,000		850,000
SINTON SINTON	30,591		30,591
WAXAHACHIE NEW WAXAHACHIE MUNICIPAL	23,762		23,762
SUBTOTAL	6,846,290	302,993	7,149,283
UTAH			
STATE OF UTAH	109,521		109,521
SALT LAKE CITY SALT LAKE CITY INTERNATIONAL	100,000	412,552	512,552
SUBTOTAL	209,521	412,552	622,073
VERMONT			
RUTLAND RUTLAND STATE	78,818		78,818
SUBTOTAL	78,818		78,818
VIRGINIA			
MT. JACKSON SHENANDOAH COUNTY	56,000		56,000
NEWPORT NEWS PATRICK HENRY INTERNATIONAL	186,776	379	187,155
STAUNTON/HARRISONBURG SHENANDOAH VALLEY	381,060		381,060
SUBTOTAL	623,836	379	624,215

STATE CITY AIRPORT LOCATION	DISCRETIONARY	ENTITLEMENT	TOTAL
WASHINGTON			
STATE OF WASHINGTON	232,452		232,452
BELLINGHAM BELLINGHAM INTERNATIONAL	74,528		74,528
EASTSOUND ORCAS ISLAND	692,000		692,000
FORKS FORKS MUNICIPAL	40,000		40,000
LANGLEY NEW	50,000		50,000
MOSES LAKE GRANT COUNTY	134,000		134,000
PASCO TRI-CITIES	253,270	11,994	265,264
PORT ANGELES WILLIAM R. FAIRCHILD INTERNATI	28,062		28,062
RENTON RENTON MUNICIPAL	59,400		59,400
SEATTLE SEATTLE-TACOMA INTERNATIONAL	2,500,000	1,100,000	3,600,000
SUBTOTAL	4,063,712	1,111,994	5,175,706
WISCONSIN			
GREEN BAY AUSTIN STRAUBEL FIELD	1,102,376	1,891,807	2,994,183
KENOSHA KENOSHA MUNICIPAL	3,584,790		3,584,790
MOSINEE CENTRAL WISCONSIN	361,848	1,194,534	1,556,382
RHINELANDER RHINELANDER-ONEIDA COUNTY	432,900		432,900
SUBTOTAL	5,481,914	3,086,341	8,568,255
WYOMING			
CHEYENNE CHEYENNE	14,183	272,968	287,151
GILLETTE GILLETTE-CAMPBELL COUNTY	420,000		420,000
KEMMERER KEMMERER MUNICIPAL	51,322	748,678	800,000
RIVERTON RIVERTON REGIONAL	510,000		510,000
SUNDANCE NEW	45,040		45,040
SUBTOTAL	1,040,545	1,021,646	2,062,191
GRAND TOT	75,952,845	52,969,192	128,922,037

ADVANCED AUTOMATION PROGRAM

Senator LAUTENBERG. Admiral Engen, I want to ask some questions and I will try to move this thing along, about the advanced automation system. It reflects, I guess, the hope and belief of some us that we will be able to continue to automate the system to take care of the expectations in traffic, the increased volume—it just does not lend itself well, I do not think, to the traditional method of handling air control or perhaps even air safety in terms of inspection.

There are lots of things we can do with the appropriate kind of computer system. I am concerned about the process that is being followed in order to get to the point that we want.

You are aware of the difference that is now being aired between your agency and the GAO in terms of how we solve the problem. GAO recently testified before two House subcommittees, that your AAS system strategy involves relatively significant risks; cost increases, schedule delays, and performance problems.

As I understand it, your strategy includes two phases; first the contractor is going to design the AAS, and build and demonstrate prototype controller work station console.

Now based on the information that will be supplied here, this would be supplemented by tradeoff studies and computer performance model simulations. You plan to award a more than $2 billion contract to concurrently develop, produce, and test the hardware and the software.

Do I fairly accurately summarize what your acquisition strategy?

Mr. ENGEN. Yes, sir; I would like Mr. Frisbie, Associate Administrator for Development and Logistics to respond directly to you.

Senator LAUTENBERG. OK.

Mr. FRISBIE. Yes, Senator Lautenberg, I think you have captured the essence of what we plan to do. We have two contractors in the ongoing competition phase now; the IBM Corp. and Hughes. They are proceeding through a point where in January 1988, we would make a production decision.

I think the disagreement that we have with the General Accounting Office, and we have spoken to them for many hours and hours and I think we understand their position and they understand ours.

They would have us delay the decision to select a single contractor for about 24 months. That is to say, they would essentially do nothing different than what we are planning to do. They would do it with two contractors, and we plan to do it with one.

We feel that the course that we have taken is a course that does not have significant risks. Those risks will be examined at the point that we make the production decision, very carefully. We will have at that time an independent assessment done within the FAA of whether or not we have a program that we can go forward with. We will have at that time a new cost-benefit study which has been requested of us by the Congress.

We think at that point we will have sufficient information to go forward with confidence. If I can add that the contractors that we are working with, they share that confidence and we will share that confidence because——

Senator LAUTENBERG. Does it surprise you——

Mr. FRISBIE. It is not a surprise.

Senator LAUTENBERG. They are two very good contractors. I worked with IBM for a lot of years in my former life, and Hughes. They are excellent contractors.

Mr. FRISBIE. Well, let me say that they will be sharing that view in this respect; that two-thirds of the cost of the acquisition phase will be fixed price. So it is more than just a belief on their part; they will have to be making a corporate commitment and that corporate commitment is typically one which does not represent high risk when they bid fixed price.

GAO MISSION

Senator LAUTENBERG. I just want to challenge one thing you have said and that is the purpose of the GAO mission. I am not here to defend that. I am here to find out from you, for the public, whether or not we are doing the best thing that we can. So since they are our auditors in this case, you have suggested that they want to delay the project and I think it is fair to say that is generally true. But they do not want to delay it for the sake of delay.

They want to delay the plan so that when we get down to 10 or 15 years from now that we know that we have spent our money as wisely as we can and we have achieved as much as we can.

That is kind of where we square off the two teams, if we might.

What the biggest difference is, it seems to me, at what point will the testing have gone sufficiently far so that the commitments we make of the major proportion, the $2-plus billion, the time schedule—once we get into this thing, there would be no reason to go back unless we see that the system does not work because we have gone in there with the full belief that it is going to be a functioning system that does the job.

I will address my questions to your colleague, Admiral?

Mr. ENGEN. Yes, sir.

Senator LAUTENBERG. In the January 1986 report, AAS, you indicated that you plan to use computer modeling to ensure that the system is going to meet both the current and future proponents requirement. You propose to substitute modeling for direct tests on the AAS system. According to the GAO industry other experts, model assumptions must be demonstrated to be accurate before the results can be relied on to predict performance.

The key hardware and software element have to be developed and tested to prove that the models are accurate. Do you think that you will have sufficiently tested the key elements of the hardware and software during the design competition phase that confirm that the model assumptions are accurate?

Mr. FRISBIE. We think, Senator, that we will have sufficient information at that point to go forward with confidence. We will not have built an entire AAS prototype and completely demonstrated it with all of the communications loops and input/outputs that GAO would have us do.

What they would have us do is to literally build, if you will, one deliverable unit and to run that out completely before we make a production decision. We don't think that the costs that are associated with that and that the delays that are associated with that balance well against the risk.

We think that the risk is mitigated by the information that we will have at hand when we make the selection and the Government's risk is limited by the fixed price nature of the contracts I talked about, and the testing which will be done as a part of the acquisition phase to determine that the Government gets what it buys.

Now, there is another element besides the hardware, and that is the software. And in the GAO approach, what they would have two contractors do, as I understand it, is develop a million lines of code each, test those, the Govermment will pay for those—test those and throw away 1 million lines of coded software.

Senator LAUTENBERG. A million of anything sounds like a lot, but you know something about computer technology, I assume; I know something about it. The fact of the matter is that whatever delays might be encountered right now, whatever money we might spend up front could well be well justified in our confidence later on in this system by seeing that it has been through the kind of a testing process that gives us a higher degree of assurance.

Now you may know and some professionals know and I think I know how complicated this project is. It is a major thing. It compares with the most sophisticated, exotic defense systems, et cetera. I mean, there are parts of this that are unlike the kind of development that has to go into the Strategic Defense Initiative; making sure that everything is in place.

The complicated nature of this is such, and the longtime cycle needed to get this fully developed, and the fact that it is really modular in its character, but at the same time the objective is to move this into a basic system—and I know what kind of reliability you are looking for, that you have to have.

I would submit to you that you ought to be taking another look and I do not blame you for not liking the GAO challenge here, because by no means can it be suggested that your very good people—I know some of these people in Pomona and other places where some of this work is going to be done—that they were not casual about this, but I think early haste would make an awful lot of waste as we go down, and I would rather do the extra million lines of development, and I would rather have software development.

I would rather build a functioning prototype and see it done that way before we go ahead and commit to a project that 5 years from now we are to be looking back—I mean, you have seen it—if you follow what has happened with IRS not too long ago. There were huge commitments made and then finally it was established that this thing does not work. I mean, history, as anyone involved in computer technology knows, is full of failed projects that were accepted before they got off the ground.

I do not want us to be in that shape and I do not want the taxpayers to spend the money for that, and I do not want the areas that are causing delays, pleasantly or unpleasantly, but based on the forecast, very attractive—I mean, it could make this look a little bit like child's play.

Mr. ENGEN. If I could respond to that last point, because it is a point that I wanted to add, as well. The reason we have a success-oriented plan, or program, if you will, is because we see the need of coming down with the compounding of air traffic volume over the years. We need now to move out forthwith to have this greatly increased capability to meet the traffic of the future, and this has been a very key program to our entire system.

If we were to delay that now, it surely does throw out of kilter our plan to get where we want to be for the 21st century. The need is now.

I would just finish by saying that the operational need is so real that having assessed the risks, and I would not detract one iota from anything that you have said because we have addressed the very same issues and it is right to review this again, to be sure that we are not just mindlessly proceeding on. What we need now is to get this capability so that we can indeed improve the air traffic control capability.

RISK ANALYSIS

Senator LAUTENBERG. Have you done a risk analysis on this?

Mr. FRISBIE. Do you mean a schedule risk analysis?

Mr. ENGEN. Let me ask Mr. Val Hunt, who heads the Advanced Automation Program to speak to that, Mr. Chairman.

Senator LAUTENBERG. Yes.

Mr. HUNT. Yes, sir; we have done an extensive schedule risk analysis.

Senator LAUTENBERG. Have you done the technical risk analysis?

Mr. HUNT. Yes, sir; we have.

Senator LAUTENBERG. So both of those are completed?

Mr. HUNT. Yes, sir; they are not formal reports.

Senator LAUTENBERG. I would like to get whatever you have on that and give us a chance maybe to review with you, or whoever in your organization is most up to date. Can you give me a crystallized view of what the risk factors tell you in this?

Mr. HUNT. We felt that the largest risk in the development of the advanced automation system is the software. Now my own experience in developing software systems——

Senator LAUTENBERG. Are you talking about the operating cycle? The applications?

Mr. HUNT. The applications software, sir. Newly developed software systems have to evolve and the best way to have them evolve is to work with them a little bit, to have the operational personnel try to apply them to the solution of the operational problems; find out how well they perform and fix the areas where they do not seem to perform up to standards.

So we felt that this requires a very close relationship between the user community and the developers. If you look at a competitive environment, however, where you have two prime contractors developing equipment to be tested, in order to preserve fairness on the part of the Government, we are forced to take a hands-off approach and to make sure that whatever the contractors are doing meets our specifications, but we do not volunteer anything beyond that in the interest of fairness.

So we find that we have a very formal relationship during the competitive phase. We felt that the risk of having software developed that might be going in the wrong direction in a competitive environment was far outweighed by the closer working relationship that we could have, after we select single acquisition phase development contractors.

Senator LAUTENBERG. This is a subject that is going to get a lot of review, as you can imagine. I would ask that you submit those risk analysis reports to the subcommittee, please.

Mr. HUNT. Yes, sir.

[CLERK'S NOTE.—The requested information is not reprinted here due to the length of the document.]

SUBMITTED QUESTIONS

Senator LAUTENBERG. I would thank you for your willingness to stay by us as we extended this hearing. There is a lot of information that everybody wants to learn and it takes time. We have additional questions that will be presented to you in writing and we would appreciate your answers as soon as possible.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR ANDREWS

FURLOUGHS

SENATOR ANDREWS: The Secretary's February 19 testimony indicated that, in the absence of the $80 million supplemental, half of the shortfall could probably be made up by attrition, cutbacks, and management initiatives; while the other half would necessitate a one-day-a-week non-safety furlough. Is this still an accurate characterization? If not, please elaborate.

ANSWER: In the absence of the requested $80 million dollar supplemental, it is unlikely that any additional significant savings could be generated through attrition, cutbacks, and management initiatives. These steps have been implemented since December 1985, including a hiring freeze on all vacancies except for those directly relating to safety and severe restrictions on such discretionary non-pay items as travel, printing, contracts, training, and equipment. Therefore, FAA has considered two furlough scenarios. One scenario would be to exempt air traffic controllers, safety inspectors, maintenance technicians and security personnel, which would lead to a furlough of approximately 40 compensable work days or two full months. Under this scenario, it would be very difficult to keep the agency running for this period of time without sufficient support personnel, such as payroll clerks, personnel specialists, or lawyers. The second scenario would be to exempt no employee category from furlough, which would result in all personnel being furloughed approximately 13 days.

SENATOR ANDREWS: It has been reported that an additional $50 million is required in FY 1986. Please outline the urgency of that second supplemental request? Why wasn't the additional $50 million made part of the March 26 budget amendment?

ANSWER: No additional funding is required in FY 1986 beyond the $80 million dollar supplemental request.

FY 1986 SHORTFALL

SENATOR ANDREWS: Admiral, both you and the Commandant of the Coast Guard instructed your agencies to tighten their belts last year when FY 1986 funding was uncertain. It appears from the obligations to-date that not enough belt-tightening took place in FAA. Why isn't regional spending kept under closer control?

ANSWER: On October 16, 1985, I issued a wire constraining obligations while operating under a Continuing Resolution. This direction reflected the premise that we would be operating at a level equal to our FY 1986 amended request to Congress.

On December 30, 1985, I issued additional instructions further restricting FY 1986 employment and funding. This reflected the enactment of the Gramm-Rudman-Hollings Bill but prior to the finalization of the reduction procedures. At that time, the reduction in the Operations appropriation was estimated to be only 2.5%-3.0% of new Budget Authority. However, the final Governmentwide implementation instructions resulting in an across-the-board reduction of 4.3%. This left us at a funding level approximately $170 million below our revised FY 1986 congressional request. Then, additional requirements surfaced, namely, rate increases for Leased Telecommunications (including DECCO) as well as additional Air Traffic funding for training, contracts, and Cross-Option program. As a result of the increasing financial pressures, I issued further restrictions in my April 15 guidance to the regions/centers and Washington offices.

We have tightened our belts to correspond to our expected FY 1986 resources which for this year have been reduced several times.

LACK OF IMPROVEMENT

SENATOR ANDREWS: After the record number of delays during the summer of 1984, I convened a special hearing on the Air Traffic Control System. At that time, the subcommittee was told that staffing improvements were ongoing. Now over 18 months later let's just look at the Cleveland Center. One with which I'm familiar since my flights to North Dakota pass through its airspace.

-There were 543 controllers before the strike, 78% of whom were full performance level. Now there are 395, with less than half full performance (FPL).

-Furthermore, there are 31 FPL controllers (or 16%) now eligible to retire, and 26 (or 60%) of Cleveland's supervisors are also eligible.

-Lastly, traffic at the Cleveland Center is almost 12% higher than before the 1981 strike.

What we have is not an improving situation, despite previous testimony. How do you respond?

ANSWER: The staffing situation at the Cleveland Center has been slow to improve.

To help remedy this situation, we have initiated several programs. One is a new screening program at the FAA Academy that will help identify which controllers are best suited to work in each option (centers or terminals) and then to place them into that option to improve their chance of successfully completing the training to full performance level. This program should considerably reduce the training attrition rate as these individuals move from the Academy to the field facilities.

Another program is the Cross Option Program. It involves the voluntary movement of radar qualified controllers from terminal facilities into the seven ARTCC's where our staffing shortages are acute. More than 500 controllers have applied for this program and we expect to complete the transfer of about 200 by the end of the year. By using the best qualified Academy graduates at Centers such as Cleveland and by moving FPL's from other facilities, we will be trying to improve the overall staffing situation in the shortest possible time.

FARGO DELAY

SENATOR ANDREWS: On Sunday, April 27, Northwest Flight 408 experienced a 1 hour 50 minute ground delay before departure to Minneapolis. How many aircraft were allowed to depart for Minneapolis between when the hold was put in place at 2055 GMT, and when it was lifted at 2200?

ANSWER: No aircraft were allowed to depart from within the Minneapolis Center or the centers adjacent to Minneapolis during the 2050Z thru 2215Z time period. Aircraft affected by the ground delay program were not released (cleared to depart) until 2215Z for aircraft departing airports in centers immediately adjacent to Minneapolis and 2225Z for aircraft departing airports within the Minneapolis Center area because of the close **proximity** to Minneapolis. This release time was to allow a reduction in the airborne holding inventory - keeping it within manageable and safe limits.

SENATOR ANDREWS: How many flights were in airborne hold over Minneapolis during this time?
ANSWER: The airborne holding inventory during the 2055Z to 2215Z period ranged from 19 to 47 aircraft with the peak of 47 aircraft being reached at 2140Z.

SENATOR ANDREWS: How many controllers were on duty in both the Minneapolis Center and tower during this time? How does this compare to normal staffing? Is this level considered adequate?
ANSWER: The Minneapolis tower had 18 people on duty during this time. They were divided between the tower cab and the approach control as follows:

Tower Cab:
1 Area Manager (responsible for cab and approach control)
1 Area Supervisor
4 Full Performance Level Controllers
1 Developmental Controller
1 Air Traffic Assistant

Approach Control:
1 Area Supervisor
5 Full Performance Level Controllers
4 Developmental Controllers

This is normal staffing and is considered adequate.
The Minneapolis center had 79 people on duty during this time:
1 Area Manager in Charge
9 Area Supervisors
4 Traffic Management Coordinators
1 Military Liaison Specialist
39 Full Performance Level Controllers
20 Developmental controllers
5 Air Traffic Assistants

This is normal staffing and is considered adequate.

SENATOR ANDREWS: Why doesn't FAA allow departure in anticipation of arrival clearance to mitigate delays and miss connections?
ANSWER: FAA does allow aircraft to depart in anticipation of increased capacity; however, aircraft were not allowed to depart for Minneapolis because the airborne holding inventory during that time was 40-45 aircraft. Allowing aircraft to takeoff when no aircraft were landing would only tend to exacerbate the situation. We do not want to saturate any sector because it increases controller workload and may derogate safety. Saturated sectors or areas have a systemwide impact, to lessen the impact on the system we use ground holds in lieu of airborne holding.

SENATOR ANDREWS: At what time after the 2200 clearance was given were ground-held aircraft allowed to depart?
ANSWER: Aircraft being held on the ground in centers adjacent to Minneapolis Center were released (cleared to depart) at 2215Z and aircraft departing airports within the Minneapolis Center were released at 2225Z.

SENATOR ANDREWS: What was the backlog of departures at 2200? How does FAA prioritize those departures for clearance? Was Fargo flight 408 cleared after others? If so, why?

ANSWER: The departure backlog of aircraft destined Minneapolis at 2200Z was 47 aircraft. Priority is normally given to those aircraft with the greatest accumulated delay; however, aircraft are cleared on a first-come, first-served basis; i.e., an aircraft with the greatest accumulated delay is still loading passengers when an aircraft with less delay is all loaded and ready for takeoff, the aircraft with the lesser accumulated delay will be released first.

NW408 was released at 2225Z which was the same time all aircraft in the Minneapolis Center were released. NW 408 was the first aircraft departing Fargo for Minneapolis after the release of aircraft in the Minneapolis Center area.

SENATOR ANDREWS: How long was Republic #36 held in the air?

ANSWER: Republic 36 received an airborne holding delay of 44 minutes.

NUMBER OF SECTORS

SENATOR ANDREWS: During this subcommittee's special delay oversight hearing (Sept. 1984), FAA acknowledged over-saturated airspace, so-called "Red Sectors". GAO's controller study points out that controllers feel there need to be more sectors to cover airspace. Why do the controllers themselves feel the need to establish more sectors?

ANSWER: We believe it would be purely conjecture on our part to attempt to explain why the controllers themselves believe there is a need to establish more sectors. However, over the past years, extensive modernization within the Federal Aviation Administration has provided system efficiencies which have served to increase the levels of traffic which air traffic controllers and supervisors can handle. The traffic management system has initiated new programs which provide a better and more precise control of system volume. The results have been a more disciplined flow of traffic whereby aircraft are spaced properly, peaking and bunching are reduced, and controllers can handle more aircraft with less pressure. Local traffic management units (TMU) have been established at all air traffic control centers that function in conjunction with the Central Flow Control Facility, located in Washington, D.C., and ensure that local capacity levels are not exceeded and available resources are used effectively.

SENATOR ANDREWS: Even though FAA has reinstituted more sectors, GAO reports there are still 80 fewer sectors than pre-strike. Why?

ANSWER: The pre-strike total sectors in the air traffic control centers was 721. Through the National Resectorization Program, that was implemented after the strike to improve system design and increase controller productivity, this total was reduced to 558 sectors. The reduction of sectors resulted in a need for fewer controllers and a greater productivity per employee. Prior to the strike, the average controller was actually controlling traffic about 4 hours per day. Today at most facilities it is between 5½ and 6 hours per day.

A standardized criteria has been established for the purpose of providing positive procedures for establishing and validating en route sectors. This initial request for a sector originates in the facility and is processed through the regions and evaluated at the headquarters level. During the period April 1985 to April 1986, requests for 24 additional sectors were processed. Twenty-one of these have been approved on a full or part-time basis. The remaining three requests lacked sufficient justification. Overall, the additional sectors have been approved **bringing our total sectors to** 645.

CONTROLLERS (14,806 VS. 14,480)

SENATOR ANDREWS: The Continuing Resolution Conference authorized a funding level which assumed support for 14,306 Air Traffic Control (ATC) positions, the level reached in February 1985, plus an additional 500 positions announced in September 1985. The conferees stated that they expected FAA to make special efforts to reach the 14,806 staffing level by July 31, 1986, and any deviation was to be reported promptly to the House and Senate Committees on Appropriations. How does FAA plan to reach the staffing level of 14,806 by July 31, 1986?

ANSWER: The FAA does not plan to reach a Controller Work Force staffing level of 14,806. The controller work force staffing goal for FY 1986 is 14,480. There was a misinterpretation of the staffing goal during 1985 when Secretary Dole made her announcement that the FAA would be hiring an additional 1,000 controllers. The sequence of events leading up to our staffing goal follows:

1. For FY 1985, the work force goal was 14,306. That goal was essentially met in February of 1985.
2. The work force declined over the next 7 months and at the end of August 1985, stood at 13,981. On September 19, Secretary Dole stated at a news conference, that the FAA would add 1,000 more controllers during FY-1986 and FY-1987.
3. The FAA made plans to add 40 controllers per month during FY-1986 and the balance of the 1,000 during FY-1987. The 480 to be added during FY-1986 were to be added to the controller work force of 13,981 to give a total work force goal of 14,480.
4. Congress, in its continuing resolution, changed the intent of the FAA staffing goal by adding the FY-1986 controller increase to the original work force goal of 14,306 to come up with the 14,806 number.
5. The intent of the Secretary and the FAA with the additional controllers was to add to the current on board controller work force to bring the total goal to 14,480.

SENATOR ANDREWS: What is the current controller workforce by category? Where are we today - is the workforce likely to reach the 14,500 the Secretary has set as the goal for this September?

ANSWER: The current Controller Work Force is as follows:

Controller Work Force
(Full time with Permanent Appointments)
As of April 30, 1986

Type Employment Totals	Terminals	Centers	Totals
FPL controllers	5,524	3,337	8,861
Developmentals (GS-11/12/13)	584	1,162	1,746
Operational Controllers	6,108	4,499	10,607
Developmental Pipeline (GS-05/07/09)	366	1,595	1,961
TOTAL CONTROLLERS	6,474	6,094	12,568
Air Traffic Assistants	650	818	1,468
Total Controller Work Force	7,124	6,912	14,036

**This number includes 449 Common Screen students.

Our projections indicate that we will reach our goal of 14, 480 by the end of FY-1986.

SENATOR ANDREWS: Your February 28 letter says that having 300-fewer controllers in the workforce was actually the conscious decision to reduce a group called air traffic assistants. Did these assistants become controllers when you decreased assistants, did controllers pick up their "lesser duties." As your letter suggests?

ANSWER: The Air Traffic Assistant (ATA) reduction was because of an overstaffing situation due to the implementation of the new staffing standard which was applied for the first time in FY 1986. The remaining ATA's continued to perform their duties and there was no need for controllers to pick up their "lesser duties."

SENATOR ANDREWS: When you reordered the mix of assistants and controllers, you came down in the area of lesser responsibilities, but appear to have made no corresponding increase in operational controllers. In fact, in 1985 you had about the same number of operational controllers as you had in FY 1984, and you were off your own goals by 8%. There is a fundamental shortfall here, and I find the Department's explanations inadequate. When will you reach the Secretary's goal?

ANSWER: Our FY-85 and FY-86 goals are below and show increases in Controllers and Developmentals while decreasing the ATA's.

	1985 Goal	1986 Goal
Controllers	11,285	11,507
Developmentals	1,127	1,369
Total Controllers	12,412	12,876
Air Traffic Assistants	1,894	1,604
	14,306	14,480

We will, according to our projections, meet the Secretary's goal of 14,480 by the end of FY 1986.

SENATOR ANDREWS: In the February 19, 1986, Senate Appropriations Hearings, the Secretary said FAA would be able to meet its end-of-FY 1986 goal of 14,480 controllers. Did FAA really mean 14,480 controllers or does this refer to a total Air Traffic Control (ATC) workforce? If the former, how does FAA plan to add about 2,000 controllers by September 30, 1986? If the latter, please provide a breakdown of the categories of personnel in the ATC workforce, including FPL's, developmentals at field facilities, developmentals at the Academy, and Air Traffic assistants.

ANSWER: The FY 1986 goal of 14,480 is for the controller work force. The breakdown, by categories, is as follows:

Controllers	11,507
Developmentals*	1,369
Total Controllers	12,876
Air Traffic Assistants	1,604
	14,480

*Of the developmentals, approximately 440 will be at the Academy.

SENATOR ANDREWS: How does FAA explain the difference between its above staffing goal of 14,480 and the Conference Committee's expectation of 14,800 by July 31, 1986?

ANSWER: The controller work force staffing goal for FY 1986 is 14,480. There was a misinterpretation of the staffing goal during 1985 when Secretary Dole made her announcement that the FAA would be hiring an additional 1,000 controllers. The sequence leading up to our staffing goal follows:

1. For FY 1985, the work force goal was 14,306. That goal was essentially met in February of 1985.

2. The work force declined over the next 7 months and at the end of August 1985, stood at 13,981. On September 19, Secretary Dole stated at a news conference, that the FAA would add 1,000 more controllers during FY-1986 and FY-1987.

3. The FAA made plans to add 40 controllers per month during FY-1986 and the balance of the 1,000 during FY-1987. The 480 to be added during FY-1986 were to be added to the controller work force of 13,981 to give a total work force goal of 14,480.

4. Congress, in its continuing resolution, changed the intent of the FAA staffing goal by adding the FY-1986 controller increase to the original workforce goal of 14,306 to come up with the $14,806 number.

5. The intent of the Secretary and the FAA with the additional controllers was to add to the current on board controller work force to bring the total goal to 14,480.

STRIKE RECOVERY

SENATOR ANDREWS: At the fiscal year 1985 Senate hearings (held on April 3, 1984), the Acting Administrator stated that the post-strike recovery was "Right on Schedule" and that FAA had hired nearly all of the replacement controllers needed to staff the post-strike Air Traffic Control (ATC) system. In light of the above, what is the explanation for the September 19, 1985 announcement by the Secretary of Transportation that 1,000 more controllers would be added in Fiscal Years 1986 and 1987?

ANSWER: The decision to add an additional 1,000 controllers was based on actual and projected system growth which had occurred during the seventeen months that separated these two announcements.

SENATOR ANDREWS: Given the record of changing staffing goals, the projected increases in air traffic, and the responses of controllers, supervisors and facility managers to GAO questionnaires, what assurances does FAA have that its goals are realistic and will not cause controllers to continue to be overworked?

ANSWER: The FAA does not agree that all controllers are overworked. Our goals and plans are based upon established staffing standards which match resources to system demand based upon workload and density factors.

SENATOR ANDREWS: Is FAA still comfortable with the end-of-FY-1987 workforce level of 15,000? If not, please explain.

ANSWER: The FY-1987 Controller Work Force goal of 14,980 will give us sufficient personnel to handle the anticipated needs of the system.

CONTROLLER WORKFORCE

SENATOR ANDREWS: In General Accounting Office's (GAO) recent survey, 70% of controllers themselves said they are required to handle more peak period traffic than they should. Facility managers think that's so only for 4% of the controllers, and supervisors come out in between, claiming that 38% of controllers are handling too much traffic. How many controllers are currently handling too much traffic? In your opinion are facility managers reluctant to identify the true scope of the problem?

ANSWER: Controllers may perceive this to be true. However, the fact is that no national or local policy has ever required controllers to handle more aircraft than they can safely manage. In fact, a number of safeguards are in effect to preclude that from happening. National traffic management programs are initiated - Traffic Management Units, in all ARTCC's monitor traffic loads and initiate programs which control volume - Area Supervisors monitor individual sectors and adjust traffic flows and as a last resort, sector radar controllers have the responsibility to stop traffic when they believe they are receiving more traffic than they can handle.

We do not believe facility managers are reluctant to idenfify problems. For example: FAA investigative teams have found that facility managers are identifying operational areas of concern, and have overwhelmingly responded by taking steps to alleviate these problem areas through a commitment to traffic management programs.

SAFETY BOARD RUNWAY INCURSION STUDY

SENATOR ANDREWS: On Tuesday of this week, the National Transportation Safety Board approved its runway incursion study. This study was undertaken after two DC-10's almost collided in Minneapolis last March. That study contains several disturbing conclusions about both controller and pilot activity. Of primary concern is the Board's discovery of incomplete reporting and investigation of runway incursion data system. How soon will FAA be able to review operational error incidents to identify trends or take corrective action? Why are there no standard retraining procedures for controllers involved in repeated operational errors?

ANSWER: Operational errors are reported, investigated, and analyzed for trends at this time. Alert bulletins and suggestions for corrective actions are prepared and distributed to the field facilities. Quarterly reports showing statistical analysis of various factors contributing to incidents are also prepared and distributed.

Each operational error is judged on the degree of controller contribution to the loss of separation and is tailored to correct those particular discrepancies which were identified in the investigation. All factors are considered, such as: pilot involvement, weather, equipment, operational procedure, and other factors which may have impeded the controller's effectiveness. Although the primary responsibility for separation of aircraft rests with the controller, many situations arise that greatly reduce his/her effectiveness. In these cases, training beyond that required for initial certification is not appropriate. If the controller is completely at fault and demonstrates a performance problem, then additional measures are taken to improve the performance. Failure to improve performance, through extensive training and monitoring, leads to demotion or even separation from the service. It would be impossible to have a standard retraining program to cover every conceivable situation.

SENATOR ANDREWS: Supervisor's, according to the NTSB report, are allowing operational errors to go unreported. Given FAA's recent emphasis on human resource management, isn't a system in place to constructively deal with this problem?

ANSWER: All FAA employees are required to report any known loss of separation between aircraft. We consider the loss of separation a very serious matter and do not condone any employee willfully covering up or not reporting any operational error. We are not aware of supervisors not reporting errors, and should such an instance occur, immediate disciplinary action would be taken. Additionally, there is a computer software program in the enroute option to help identify the loss of separation between controlled aircraft. This program was implemented in all enroute facilities in July of 1984 and was initially designed to identify controllers deficiencies in applying separation between controlled aircraft.

SENATOR ANDREWS: Another common element the Board discovered was lack of controller supervisors in towers. What procedures are now in place to ensure redundancy in towers?

ANSWER: The FAA issued GENOT 6/30, Notice 7110.961, directing all air traffic tower managers to provide a specialist for the tower to act as another pair of eyes and assist with the coordination for runway crossings and runway usage between local and ground control during moderate to heavy traffic periods. As a minimum, this person has to be fully qualified on all positions in the tower cab. Further direction mandated use of locally prepared forms or writing tablets prepared in accordance with facility directives to keep track of the arrival/departure sequence. The GENOT was disseminated February 1986.

SENATOR ANDREWS: Why are controllers-in-charge allowed to simultaneously perform controller duties?

ANSWER: Where two or more specialists are on duty and no supervisory personnel are available, a specialist, who is fully qualified and rated in the assigned operational area, is designated by the facility manager as controller-in-charge for that period when supervisory personnel are not available. This most frequently occurs at low activity facilities were supervisory positions can not be justified, and at some larger facilities where supervisory positions can not be justified for continuous around the clock, 7-day a week coverage, i.e., midnight shift.

The controller-in-charge does not perform the full range of supervisory duties and therefore, has ample time to perform controller duties, which are the primary functions, and watch supervision.

SENATOR ANDREWS: The Board recommends that more complete communication be required both between controllers (Ground and Local Control) as well as between pilots and controllers. Why doesn't the air traffic control handbook specify coordination procedures between ground and local controllers? Why is this coordination developed informally rather than standardized?

ANSWER: The FAA has scheduled implementation of changes to the Air Traffic Controllers Handbook, 7110.65, paragraph 3-3, requiring exact phraseology for coordinating runway crossings between the local and ground controller. Additionally, another change in the handbook, paragraph 3-81, will delineate the difference between the phrases used to clear an aircraft to a runway and those used when "hold short" restrictions will be issued. This change will be released shortly in an "Action Notice" and has already been included in forthcoming changes to Handbook 7110.65 and the Airman's Information Manual, effective August 28.

The FAA is also developing Operational Position Standards (OPS) which will specify standardized operating procedures for each position of operation. The directive will specify standardized coordination procedures between ground and local control. An OPS is the uniform method of position operation which requires standardization of instructions, certification, performance, and evaluation. Each position of operation for Tower Cabs, Terminal Radar Approach Controls, Air Route Traffic Control Centers, and Flight Service Stations is included. The OPS are in a test phase at this time.

NATIONAL AIRPORT HELICOPTER INCIDENT

SENATOR ANDREWS: After the September 1985 helicopter incident at National Airport, the NTSB made six safety recommendations. What is the status of each, including A-86-12 regarding on-the-job training being conducted by qualified instructors who have current performance evaluation?

ANSWER: The Safety Board issued the six safety recommendations on January 15, 1986. The FAA's response to the Safety Board, dated April 10, 1986, addressed each of the six recommendations. The first two recommendations, A-86-7 and -8, called for the establishment of standardized departure/arrival routes for helicopter traffic at Washington National Airport to include a chart for use by pilots. The chart including procedure for its use, was developed and became effective February 13.

The third recommendation, A-86-9, requested a study of the **feasibility** of VFR helicopter routes at major airports throughout the National Airspace System. As a result, New York City, was selected for a prototype helicopter route chart in November 1985. The FAA is now evaluating comments from this prototype with a working group being convened to develop final standards for the production of the charts on a national basis.

The fourth recommendation, A-86-10, recommended the inclusion of VFR helicopter control procedures in FAA Academy and on-the-job training for controllers. The FAA Academy is currently revising its program to include helicopter operations simulation at airports. On-the-job training in ATC Facilities is also being conducted on this subject.

The fifth recommendation, A-86-11, requested an evaluation of the technical appraisal program at Washington National Airport. The Appraisal was conducted immediately after the incident. It was determined that the control tower at the airport is in full compliance with the technical performance appraisal program.

The final recommendation, A-86-12, is addressed by FAA Order 3120.4, paragraphs 100 and 135. Over-the-shoulder performance evaluations by supervisors are required for all on-the-job training instructors every 6 months to evaluate separately instruction techniques and operation at the specified control positions.

In summary, I consider the FAA action complete on recommendations A-86-7, -8, -11, and -12. The FAA work on recommendations A-86-9 and -10 is in progress.

RUNWAY STUDY RECOMMENDATIONS

SENATOR ANDREWS: Provide for the record a summary of all reiterated safety recommendations with past responses and intended new actions. Also project FAA's timetable for responding to new safety recommendations included in the runway incursion study.

ANSWER: Four safety recommendations were reiterated in the NTSB report on runway incursion. The NTSB appears to have delayed response/final action on these four recommendations pending release of the associated study. All, or at least some, of the four recommendations could have been classified "Closed-Acceptable Action" if the responses had been received earlier. A one-page summary of each recommendation is as follows:

A-83-38 "Open-Acceptable Action" - Last response 10/1/85, at which time NTSB stated that the "Board's evaluation of the FAA response to A-83-38 will be made available to the FAA when pertinent information has been developed."

A-84-98 "Open-Acceptable Action" - Last NTSB response 3/15/85. FAA response was NPRM addressing the issue which was issued 10/25/85. NTSB response to NPRM dated 2/5/86, was that the NPRM was "generally responsive" to A-84-98.

A-85-16 No classification - The NTSB has never responded to the FAA response to this recommendation which was made 6/10/85. However, the Board has just classified the recommendation "Open-Unacceptable Action" in the draft report. The FAA has received no formal correspondence on this recommendation.

A-85-33 "Open-Acceptable Action" - FAA's most recent response was May 1986. On 3/17/86, the Safety Board wrote that "we will withhold further comment on your response pending completion of our study."

The FAA's timetable for responding to new recommendations in the report is 90 days after receipt of the Official Transmittal of the report to the Administrator.

RECOMMENDATION A-83-38 - Institute air traffic control directives and procedures to require when the assigned first-line supervisor is occupied working a control position, that there is appropriate and and adequate direct supervision to ensure the detection and reporting of all controller errors or deviations, the detection and monitoring of fatigue and/or stress, and the control of each controller's workload. (A-83-38)

On April 18, 1985, the FAA forwarded its response on the subject recommendation to the Safety Board. On July 3, 1985, the FAA issued changes to FAA Manual 7210.36 which required facility managers, to the extent possible, to avoid scheduling area supervisors for nonoperational duties during periods of known heavy traffic.

It should be noted that when the NTSB responded to the FAA's letter on October 1, 1985, Chairman Burnett stated: "In that there are on-going Safety Board accident investigations and a special study on runway incursions that address this subject further, the Safety Board wishes to withhold further comment at this time. The Safety Board's evaluation of the FAA response to A-83-38 will be made available to the FAA when pertinent information has been developed as a result of these activities."

The FAA believes that its response of April 18, 1985, is responsive to this recommendation and that it should have been classified, "Closed-Acceptable Action:" over a year ago. However, the FAA is unable to take further action to resolve safety recommendations if the NTSB will not respond to FAA efforts to resolve the issues.

RECOMMENDATION A-84-98 - Require that airports certificated for air carrier operations install signs at all runway and taxiway entrance, exits, and intersections that indicate the identity of the runway or taxiway. (A-84-98)

On March 15, 1985, the Safety Board classified this recommendation "Open-Acceptable Action" pending the outcome of your rulemaking procedure." (The FAA had stated previously that we concurred with the recommendation and were issuing an NPRM. Additionally, the signs are addressed and recommended in AC 150/5340-18B).

On October 23, 1985, the FAA issued NPRM 85-12, Revision of Airport Certification Rules. Proposed section 139.309 addressed the issues of recommendation A-84-98. The NTSB response of February 5, 1986, to NPRM 85-22 was that "these proposed sections are generally responsive to Safety Recommendations A-84-98 and -100 on these subjects."

The FAA has had no further correspondence from the Safety Board on this recommendation since March 15, 1985.

The FAA believes it has been totally responsive to this recommendation and that it should be classified "Closed Acceptable Action."

RECOMMENDATION A-85-16 - Periodically emphasize in the training of air traffic control personnel providing airport advisory services the proper application of runway usage procedures stressing positive coordination between control positions. (A-85-16)

This recommendation was issued February 22, 1985. The FAA responded to the Safety Board on June 10, 1985, with the FAA's action to correct the deficiency noted by the Safety Board in the recommendation. The Safety Board has never responded to the June 10, 1985 FAA letter and thus has never officially classified this recommendation. It is interesting to note that the first classification of this particular safety recommendation came on page 81 of the draft of the Runway Incursion Study, or 11 months after the FAA proposed a response to the Board's initial **recommendations** As of May 7, 1986, the FAA has not received a letter from the Safety Board with any classification of the subject recommendation or the rationale by which A-85-16 was classified "Open-Unacceptable Action" in the subject report.

The FAA believes that our June 10, 1985, response to the recommendation resolves the Safety Board's concern. However, the FAA has been unable to take further measures since the Safety Board has not responded to the FAA's initial letter.

RECOMMENDATION A-85-33 - Develop and implement, on a priority basis, specific procedures and standards, and specify responsibilities to be used during direct face-to-face and/or interphone coordination between local and ground controllers regarding requests and approvals to clear airplanes to taxi across an active runway. (A-85-33)

On March 17, 1986, Chairman Burnett sent a letter to Administrator Engen classifying the FAA's response to this recommendation "Open-Acceptable Action."

The FAA response had been to state our intention to develop "Operational Position Standards (OPS) for both ground and local controllers and/or interphone coordination between local and ground controllers." The Chairman stated, however, that "we (the Board) will withhold further comment on your response pending completion of our study "on runway incursions."

On May 7, 1986, ASF-100 forwarded a response to Administrator Engen on this recommendation which stated that Change 6 to Handbook 7110.65D, to be effective August 28 will contain the standardized procedures and phraseology to meet the intent of this recommendation.

FAA action on this recommendation is complete pending additional NTSB comment.

OPERATIONAL ERRORS

SENATOR ANDREWS: Your statement indicates that operational errors decreased in 1985 by 25 percent. This statistic, though, appears at odds with the National Transportation Safety Board's finding that runway incursion incidents have occurred 40 times since the first of the year. Why do FAA statistics only reflect 25 runway incidents for January through March 1986?

ANSWER: The National Transportation Safety Board's statement that 40 such incidents occurred was in error. Our statement of 25 operational errors occurring from January through March was correct at the time the statement was prepared. Since the preparation of the statement, one error has been added, bringing the total to 26.

RUNWAY INCURSIONS

SENATOR ANDREWS: The subcommittee understands that FAA will develop a videocassette for tower controller training on runway incursion, but that the scheduling of such training is dependent on funding availability. What is the cost of producing the videocassette? What would be the cost of disseminating copies for training? Does FAA currently have funds available for this project? Were funds requested in the budget?

ANSWER: The FAA is exploring the feasibility of developing a videocassette for controller viewing in its efforts to reduce runway incursions. The cost of developing this videocassette could range from $30,000 to $88,000 depending on several variables; i.e., availability of file footage, producing new footage, etc. Although no funds are set aside specifically for this project, the possibility exists that funding might be available in FY 1987 utilizing funds available under the Administrator's "Back to Basics" effort.

AIRPORT GRANTS -PROPER SIGNAGE

SENATOR ANDREWS: The NTSB has made recommendations on the need for clearer taxiway and runway markers. What improvements have been made since FAA's November 11, 1985, instruction to divisions to encourage sponsors to include improved signage as part of their AIP grants? Why aren't these improvements mandatory?

ANSWER: Since November 1985, the FAA regional offices have actively encouraged airport sponsors to install taxiway guidance signs and runway hold line signs which conform to FAA standards. On October 23, 1985, a Notice of Proposed Rulemaking was issued soliciting comments on a revision to FAR Part 139 which would require these signs at all certificated airports. This change to the FAR is expected to be implemented in the near future.

FULL PERFORMANCE LEVEL

SENATOR ANDREWS: At FAA's fiscal year 1986 Senate hearings (held April 3, 1985), Administrator Engen said his goal was to reduce the number of "developmental controllers in the pipeline" from 2,200 in April 1985 to 1,100 by the end of fiscal year 1985. Why were there actually 2,146 in the developmental pipeline on September 30, 1985? FAA also said that 69 percent of its controller work force was the full performance level (FPL) as of February 28, 1985, and it would have 72 percent at that level by September 30, 1985. Since FAA's data showed only 59 percent of the controller work force were FPL's as of September 30, 1985, what is the reason for the shortfall in only a 6 month projection?

ANSWER: The number of developmental controllers in the pipeline was kept at a higher level than expected due to the unanticipated loses we were experiencing from the FPL ranks.

The correct FPL percentage for February 28, 1985, was 62 percent. The correct FPL percentage for September 30, 1985, was 66 percent. Since we quoted an incorrect percentage for February, it was impossible for 59 to reach the 72 percent level by September. However, we did increase the FPL level by a larger percentage than expected (up 4 percentage points instead of 3) when using the correct figures for computation.

SENATOR ANDREWS: What is FAA's current best estimate of when it will achieve an FPL ratio of 75 percent in centers and towers?

ANSWER: At this time, we are not certain when we will reach the 75 percent FPL ratio. We have increased several new programs to increase the production of FPL controllers. While it is too early to assess the success objectives soon. Our FPL ratio continues to climb and as of April 30, 1986 it was 70.5 percent.

SENATOR ANDREWS: Who decides whether a particular facility should hire part-time controllers (re-employed annuitants) - manager at facilities, the regions, or FAA headquarters.

ANSWER: These decisions are normally made at the facility level based upon specific need and availability of "local" talent. The hiring of re-employed annuitants is coordinated with and accomplished in line with the policies of the servicing regional offices.

SENATOR ANDREWS: How was the February 1985 FPL ratio of 69 percent calculated? Why is this figure at odds with FAA's February 28, 1986 letter to the subcommittee?

ANSWER: The February 1985 FPL ratio was 62 percent. The correct calculation would be done using 7,779 FPL's and 12,556 controllers. The remaining 1,703 from the work force of 14,259 were Air Traffic Assistants. The 69 percent figure was in error.

SENATOR ANDREWS: How does FAA differentiate developmental controllers "In the Pipeline" from other developmental controllers?

ANSWER: The term developmental is used to refer to all GS 2152's who have not reached full performance level (FPL). A developmental who is not yet certified on two positions of operation is a pipeline developmental.

SENATOR ANDREWS: What was the number of developmental controllers "In the Pipeline" as of September 30, 1985?

ANSWER: There were 2,146 developmental controllers in the pipeline as of September 30, 1985.

TRAFFIC RESTRICTIONS

SENATOR ANDREWS: GAO concludes, and the FAA personnel surveyed concur, that there are too few full performance level controllers, and up to 70% of controllers are handling too much traffic during peak periods. Several remedies in the short term are discussed including restricting capacity by extended use of FAA's flow control capability (regulating the traffic nationwide). Will you pursue this solution?

ANSWER: Our traffic management system imposes restrictions on a daily basis based upon traffic volume, weather conditions, equipment problems and airport problems. These restrictions are applied, as appropriate, on a national, regional, or local scale. We do not unnecessarily overburden or restrict the system, but rather, apply restrictions when and where they are needed. Our objective is to control but not restrict.

There has been a change in our traffic management philosophy since the air traffic controller's strike in August 1981. Prior to the strike, aircraft were allowed to depart even though we knew that there were delays at the arrival airport. This resulted in extensive airborne holding causing airspace congestion and increased controller workload. Today, when delays are predicted, aircraft are held on the ground at the departure airport until they are assured of landing at the destination airport. The Controlled Departure Time (CDT) program evolved as a result of this change in traffic management philosophy. The CDT program assigns specific departure times to specific aircraft destined to a common airport where the projected demand will significantly exceed the airports capacity. This regulates the flow of traffic into the terminal area so as not to exceed the airports acceptance rate, thereby reducing airborne holding, airspace congestion, and the associated increase in controller workload.

The Preferred Routes program is aimed at reducing congestion in the en route environment. The Preferred Routes define designated routings between city-pairs, designed to smooth traffic flows and route selected traffic around highly impacted sectors.

Traffic Management Units (TMU) have been established at all the ARTCCs and the New York TRACON. They function closely with the Central Flow Control Facility in Washington, D.C., and administer local flow control programs such as the Departure Sequencing and En Route Spacing program, in order to ensure that capacity levels are not exceeded.

SENATOR ANDREWS: Another short-term solution would be found in adjusting airline schedules to smooth out the peaks, rather than compromise safety, as well as incur expensive delays. The carriers may be receptive to this -- just as they adjusted schedules in 1984. Will you pursue this with the airlines?

ANSWER: User scheduling is continuously monitored by the FAA to identify problems within the system. Close coordination and cooperation from all parties, coupled with a consistent dialogue with airspace users on peaking and bunching, has provided relief to en route sector and selected airport congestion. This spirit of cooperation, as in the past, will continue to address these issues.

SENATOR ANDREWS: What is FAA's best estimate as to when modernization of the National Airspace Plan will be in place, and controller workload reduced?

ANSWER: Modernization of the National Airspace System and the resultant reduction to controller workload, is contingent upon the realization of the projects and programs outlined within the National Airspace System Plan (NASP). Provided the funds are made available to accomplish these projects, our best estimate for accomplishing our system modernization and controller workload goals and objectives is mid - 1995.

FIRED CONTROLLERS

SENATOR ANDREWS: As you can appreciate, the continuing controllers shortfall leads inevitably to the question of rehiring fired controllers. Your past testimony has set out FAA's position. But, again, given the urgent situation, are you giving this option serious consideration?

ANSWER: Our position remains firm that we have no plans to rehire any of the controllers who were fired for striking in 1981.

SENATOR ANDREWS: Please outline objectively the advantages and disadvantages of rehiring fired controllers - setting aside the President's firm position on this matter since 1981.

ANSWER: There would be numerous disadvantages associated with the rehiring of the 1981 strikers. Such rehiring would have a severe negative impact on those controllers, supervisors and managers who remained on duty in 1981 and suffered much abuse from the strikers. Many of these loyal employees would resign or retire in the face of rehiring strikers. The majority of strikers would require extensive retraining after nearly 4 years off the job. The problems of selective rehiring of certain strikers would be significant and open the agency to allegations of discrimination on various grounds. The only possible advantage of rehiring would be a raw increase in staffing numbers.

SENATOR ANDREWS: What discussions have been conducted within the administration on rehiring fired controllers? Have you formally or informally raised the issue? If you feel this step is necessary, are you prepared to make the case for selective rehiring to the President?

ANSWER: It was the President's decision to fire the strikers after a 48-hours' grace period in August 1981. It was the President's decision that the strikers would not be rehired within the FAA. We fully support those positions and do not plan to suggest selective rehiring to the President.

NTSB FINDINGS

SENATOR ANDREWS: The National Transportation Safety Board, in an April 15, 1986, letter to the Committee, agrees with GAO's conclusions about the air traffic control work force. NTSB points out that FAA's traffic control must be based not just on airport acceptance rates, but on the amount of traffic each sector controller can handle. How does FAA plan to manage traffic around sector, as well as airport, overload.

ANSWER: Traffic Management System programs initiated provide a better and more precise control of system volume. This results in a more disciplined flow of traffic whereby aircraft are spaced properly, peaking and bunching are reduced, and controllers can handle more aircraft with less pressure. Actions to refine and balance traffic volume and sector capacities include: Red Sectors, Preferred Routes, Airspace reconfigurations, En Route Sector Loading program (ELOD), En Route Spacing (ESP) and other Traffic Management Unit (TMU) programs administered at the local level.

Red Sectors may be defined as sectors that routinely reach or exceed saturation traffic levels if traffic is not restricted. We have identified these sectors and in addition to closely monitoring their traffic levels and restricting traffic when necessary, are pursuing airspace reconfigurations, where appropriate, to resolve the problem.

The Preferred Route program defines designated routings between city-pairs, designed to smooth traffic flows and route selected traffic around red sectors and other highly congested airspace.

Airspace configurations are updated to meet the changing needs of the users, reduce controller workload, and to smooth traffic. The Patuxent Restricted Area was reconfigured in March 1986. This reconfigured airspace better meets military needs and made additional airspace available for civilian users. As a result of this reconfiguration, some jet routes were realigned and new routes were established to reduce sector loading along the east coast. Another example is the new departure route that will be implemented in mid May to reduce the impact of the increased traffic at Dulles International Airport.

Sectors have been redesigned to expedite traffic flows and reduce traffic loads. The Atlanta and Memphis ARTCC's have reconfigured airspace to accommodate increased traffic into the new hub at Nashville. Atlanta and Jacksonville ARTCC's are in the planning stages for airspace reconfiguration to accommodate the Raleigh-Durham and Charlotte, North Carolina hubs. In September 1986, airspace reconfiguration will be effected to support expansion of the Memphis hub. This action will involve both the realignment of routes and reconfiguration of sectors.

The ELOD program provides the capability to predict sector loading in the en route sectors. The program, due to limited computer capacity, now uses only static airline schedule data as filed with the OAG and does not provide dynamic data or updates. It is now used only in a limited planning way and not tactically. The rehosting of the CFCF computer will provide the capacity to utilize real-time updates for more accurate predictions and management of "live" traffic flows in the en route environment.

Traffic Management Units (TMU) have been established at all the ARTCCs and the New York TRACON. They function closely with the Central Flow Control Function (CFCF) in Washington, D.C., and administer local flow control programs such as the Departure Sequencing (DSP) and En Route Spacing (ESP), and Arrival Sequencing (ASP) Programs in order to ensure that capacity levels are not exceeded. The DSP regulates the flow of departures into the en route traffic flows in order to reduce controller workload and prevent sector overload. The ESP resolves bottlenecks, smooths traffic flows, and relieves congestion by spacing sector traffic in an orderly fashion. The ASP provides a smooth transition from the en route to terminal environment and assures that airport capacities, at the local level, are not exceeded. The continuous exchange of information between the CFCF and TMU's, and TMU's with TMU's, allows effective use of systems resources.

SENATOR ANDREWS: The Safety Board sent 13 recommendations to FAA after NTSB's 1983 follow-up evaluation of the Air Traffic Control System. What action was taken on each of these recommendations? Comment particularly on the NTSB recommendation "to postpone increases in air traffic volume until sufficient controllers are trained."

ANSWER: The FAA has responded to the 13 recommendations of the special study of the air traffic system conducted by the NTSB, and has initiated action to improve safety of the air traffic system and to satisfy the concerns of the Safety Board. The Board has accepted our action as satisfactory on all 13 and have closed 7 of the recommendations, leaving 6 in an open acceptable action status pending further action by the FAA.

The Board recommended: Standardize and disseminate immediately as an interim measure basic guidelines and methodology for controller stress and fatigue detection and management similar to those currently in use by some flight surgeons and facility supervisors, and those developed by the FAA's Office of Aviation Medicine personnel, to the air traffic control supervisors to assist them to detect and alleviate stress and fatigue among controllers.

On July 8, 1985, the Chairman responded to the FAA's action, stating the Board is pleased to note considerable progress in the FAA's effort to implement the recommendation. The Chairman went on to say the Safety Board recognizes and supports the FAA's efforts to educate air traffic control personnel on the subject of stress and fatigue. In this light, and pending notification that the FAA has taken further actions to implement formal stress management programs and procedures, the Board has classified the status of their recommendation as "Open-Acceptable Action".

On October 23, 1985, the FAA submitted a status report to the Board which identified job stress management is required for air traffic control specialists and supervisors. We also identified that air traffic is working with representatives from the Office of Aviation Medicine, as well as representatives from Offices within the FAA on a task force established to develop a follow-on program and a course designed to assist supervisors and managers in recognizing employees who may be suffering the effects of stress and fatigue. The task force has outlined a national program aimed at all FAA employees, including, of course, air traffic controllers, and will be implemented upon completion of development.

As of May 1, 1986, the Safety Board has not responded to our action or input.

The Board recommended: Expedite the development and implementation of the Air Traffic Controller Performance Assessment Program currently being developed by the FAA's Office of Aviation Medicine to assist air traffic control facility supervisors and managers to objectively evaluate controller performance and to detect and alleviate stress and fatigue among controllers.

On July 8, 1985, following our action report to the Board, the Chairman responded that the Safety Board acknowledges the FAA's efforts to be responsive to the recommendation through the development and implementation of new programs. However, in the absence of interim measures to improve existing quality assurance programs and until progress can be reported as a result of the new programs, the recommendation would continue to be classified as "Open-Unacceptable Action."

On November 19, 1983, following further action by the FAA, the Board acknowledged the FAA's efforts in expediting the development of a new standardized means for measuring technical performance known as the Technical Performance Appraisal Program to respond to the recommendation, however, the recommendation remains open because the Chairman has stated that the Board's primary motivation in referring to the Air Traffic Controller Performance Assessment Program was the potential in that program for detection of controller stress and fatigue. Therefore, before the Board will consider action satisfactorily completed, they would like assurance that the Technical Performance Appraisal Program will, in fact, have the capability to detect stress and fatigue and lead to remedial measures.

The Board recommended: Expedite the development and implementation of computer programming procedures at all appropriately equipped en route and terminal radar facilities by which less-than-standard aircraft separation occurrences are automatically detected and flagged for investigation and analysis of possible controller errors or pilot deviations.

The Automated En Route Operational Error Detection program was developed and implementation was completed in all 20 domestic En Route facilities on July 6, 1984. The Automated Terminal Error Detection Program has been handed off to the FAA Technical Center for further development. The recommendation remains in an "Open-Acceptable Action" status until completion of development and implementation of the Terminal and Offshore facility programs.

The Board recommended: Institute air traffic control directives and procedures to require, when the assigned first line supervisor is occupied working a control position, that there is appropriate and adequate direct supervision to ensure the detection and reporting of all controller errors or deviations, the detection and monitoring of fatigue and/or stress, and the control of each controller's workload.

On October 1, 1985, the Chairman responded to the FAA, that, "In that there are on-going safety board accident investigations and a special study on runway incursions that address this subject further, the safety board wishes to withhold further comment at this time. The safety board's evaluation of the FAA response will be made available to the FAA when pertinent information has been developed as a result of these activities."

The Board recommended: Revise the criteria restrictions on air traffic control services to postpone planned increases in air traffic volume and services at facilities until sufficient controllers are trained and qualified and have gained sufficient experience to allow supervisors and key staff members to resume direct first-line supervision and oversight of operations.

Although the FAA has responded to this recommendation, and the Board has closed the recommendation, the FAA does not believe it is necessary to postpone increase in air traffic **growth at this time.** The Air Traffic Operations Service closely monitors the growth within the air traffic system, and maintains a dialogue with the various users to enlist their cooperation in adjusting peak period scheduling. Our traffic management philosophy is to impose restrictions on a daily basis based upon traffic volume, weather conditions, equipment problems, airport problems, and facility conditions. These restrictions are applied, as appropriate, on a national, regional, or local scale. We do not unnecessarily overburden or restrict the system, but, rather, apply restrictions when they are needed. Our objective is to control but not constrain traffic.

The continued cooperation of the aviation industry and our improved traffic management techniques will allow growth in the industry while we maintain appropriate safety margins.

The Board recommended: Take immediate action at all air traffic control facilities equipped with radar data recording equipment to staff the data systems specialist positions on an interim basis with persons who are sufficiently qualified to handle the computer equipment, so that continuous recording and data retrieval capability is reestablished.

On October 1, 1985, the Chairman responded that the safety board is pleased to learn that guidance has been issued to all regional air traffic division managers to ensure a sufficient number of personnel are trained to maintain the Automated Radar Terminal Systems (ARTS) III/IIIA facilities data extraction capabilities on a 24 hour basis. Additionally, we are pleased to learn that ARTS III, A1.01 systems, which do not allow continuous data recording, are being replaced with ARTS IIIA system which do have continuous data recording capability. This safety recommendation remains open until the board is informed that all ARTS III facilities are continuously recording.

The Board recommended: Develop and adopt the team-assigned Evaluations, Proficiency and Procedures Specialist concept, based on that in use at the LaGuardia Tower, or a similar concept, in place of the existing staff-assigned Evaluations, Proficiency and Development Specialist/Planning and Procedures Specialist concept in use at appropriate air traffic control facilities.

The FAA's initial response was not to adopt this recommendation as a recommendation as a requirement for the entire ATC system since the concept had not proven to be cost effective particularly at the larger facilities.

On August 25, 1983, the safety board was not pleased with the response and action and classified the recommendation in an "Open-Unacceptable Action" status.

On October 18, 1983, the FAA provided the safety board with a status report of the action being undertaken to satisfy the boards concern in this area, stating, that we have concluded that, rather than providing or modifying organizational structures to accommodate training per se, we will enact those recommendations that will improve the integrity of the entire air traffic training program.

Further and specifically that we were rewriting the air traffic training handbook as recommended by Mitre to eliminate ambiguity and define more clearly responsibility, thus enhancing accountability. Also, that we were establishing criteria to be used in the selection of on-the-job instructors as well as a course to standardize the administration of field training. We had an ongoing review of the entire training effort and were evaluating different concepts and methodologies, and were obtaining input from field training personnel through national conferences.

The FAA felt that these actions would result in the achievement of the goal of quality training at all levels in an accountable and objective program that is consistent with human relations consideration. And finally, that we believe that the focus should be on the quality of training rather than a specified method.

On October 1, 1984, the Chairman responded that the board was aware of our efforts in developing a program with regard to the selection and training of on-the-job instructors and training monitors and that this program was undergoing testing within the New England Region. The safety board classified the recommendation in an "Open-Acceptable Action" status, pending receipt of the revised air traffic training handbook when it becomes available.

The revised training handbook, effective June 1, 1986 has been printed and distributed, and a copy forwarded to the safety board. The recommendation remains open pending the Boards response.

CONTROLLER TRAINING

SENATOR ANDREWS: The Department of Transportation (DOT) supplied for the record of the February 19, 1986, Senate Appropriations Hearings, certain information regarding hiring, training, and attrition of controllers. Please clarify by providing the following information. In light of the historical training attrition (failures and withdrawals) rates of 42 percent at the Academy and about 50 percent overall, what is the basis for assuming attrition losses of 390 out of 1,260 recruits (or 31 percent)?

ANSWER: This assumption was based on post-strike, enroute only, facility-level training attrition experience.

SENATOR ANDREWS: What does the assumed 31 percent training attrition represent - Academy only or Academy plus facility-level attrition?

ANSWER: The assumed 31 percent training attrition represents only enroute, facility-level training attrition.

SENATOR ANDREWS: Recent controllers retirements have averaged 400 to 500 annually, and GAO's survey indicates that they continue at that rate or higher. Why doesn't DOT's projection of 240 ATC retirements take historical data and GAO's survey results into account?

ANSWER: The FAA, in fact, uses historical retirement rates to project future retirements. These projections have been quite accurate since the FAA began making projections for ATCS personnel assigned to center and terminal facilities. The rates have been:

Calendar Year	Projection	Actual	Accuracy
1984	401	400	within 1%
1985	450	438	within 3%
1986	490-500	(Current-1986 retirements are running parallel to the 1985 rate)	

The GAO survey results are based on "individual reports" from ATCS who stated they would consider exercising the option to retire, if proposed changes in the tax law became effective.

SENATOR ANDREWS: Was it DOT's intent to tell the Committee that FAA plans to operate the Academy at maximum capacity in order to meet its fiscal year 1986 staffing goal? If so, why does it assume hiring only 1,260 new recruits when the Academy can accommodate almost 2,400 annually?

ANSWER: It was not DOT's intent to tell the Committee that FAA plans to operate the Academy at maximum capacity in order to meet its fiscal year 1986 staffing goal.

SENATOR ANDREWS: To what extent are funding constraints limiting FAA's ability to hire and/or send controller candidates to the Academy? Answer separately for initial qualification and radar training.

ANSWER: Funding constraints are not limiting FAA's ability to hire and/or send controller candidates to the Academy for initial qualification training. Progress in the field training program determines when the student returns to the Academy for radar training. Students may not progress as quickly as planned, either due to their ability or the availability of overtime funds needed to release them to attend training.

SENATOR ANDREWS: Specifically, is there a lack of money for student per diem? Is there a lack of money for overtime for field facilities to provide coverage for those who are supposed to go back to the Academy for radar training? If not, why has there been an increase in the percentage of radar training slots going unfilled?

ANSWER: There are sufficient funds for student per diem. However, slow student progress, which is determined by ability and/or overtime funds, has resulted in an increase in unfilled radar training slots.

SENATOR ANDREWS: What is the time period for all of the data provided -- all of the fiscal year 1986 or only February to September 1986?

ANSWER: The time period for all of the data provided is February to September 1986.

SENATOR ANDREWS: Provide a month-by-month summary from September 1985 through April 1986 of: Academy new trainees, Academy graduates; Academy dropouts; facility dropouts, controllers, retirements; and supervisory promotions or laterals of controllers. At the conclusion of this actual data, provide projections for each month to illustrate how FAA will reach the 14,480 level by September 30, 1986.

ANSWER: We do not keep data in exactly the form requested. We believe the data in the chart below is organized in a manner better suited to give you the full picture of the changes in the Controller Work Force (CWF). The first section of the chart details the additions to and losses from the CWF. The second section of the chart is a graphic display of our projection for meeting the 14,480 goal by September 30, 1986.

CONTROLLER WORK FORCE PROJECTION.
BASED ON DATA AS OF APRIL 30, 1986.

	ACTUAL CONTROLLER WORK FORCE						CONTROLLER WORK FORCE PROJECTION						
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	TOTAL
BEGINNING CWF	13998	13971	14012	13978	13972	13958	14028	13977	13983	14027	14294	14394	
ACCESSIONS													
NEW HIRES	163	159	154	170	116	163	97	119	143	236	199	192	986
CONVERSIONS	1	0	2	1	1	0							
POSITION CHANGES	0	1	0	1	0	4							
REASSIGNMENTS	23	14	12	21	25	43							
CHNG TO LWR GRADE	39	28	31	40	34	32							
PROMOTIONS	6	3	1	9	4	11							
TRANSFERS TO CWF	0	0	0	0	0	0	60	44	48	177	104	110	543
OTHER ADDITIONS	0	21	1	33	3	14							
TOTAL ACCESSIONS	232	226	201	278	182	267	157	163	191	413	303	302	1529
LOSSES													
TRAINING LOSSES	(TRAINING LOSSES ARE SHOWN IN THE APPROPRIATE BREAKDOW						68	76	59	61	69	36	369
SEPARATIONS	95	79	86	109	83	85							
NORMAL RETIREMENTS	3	6	7	23	3	9	40	44	44	56	50	76	310
DISABILITY RETIREMENTS	3	3	0	2	1	3							
PROMOTION TO SUPV/STAF	14	11	9	20	14	11							
TEMPORARY PROMOTIONS	28	33	32	61	20	25	9	9	11	9	8	8	54
DOWNGRADE OUT OF CWF	23	10	16	11	15	11							
REASSIGNMENT OUT OF CW	67	42	46	65	58	50	14	13	15	10	12	61	125
POSITION CHG OUT OF CW	2	0	1	0	0	1							
CONVERSIONS	5	1	1	0	2	1							
OTHER LOSSES	19	0	37	0	0	1	77	15	18	20	64	24	218
TOTAL LOSSES	259	185	235	281	196	197	208	157	147	146	203	205	1066
PROJECTED END OF MONTH CWF							13977	13983	14027	14294	14394	14491	463
ACTUAL END OF MONTH CWF	13971	14012	13978	13972	13958	14028	14036						

NOTE: THE ROWS MARKED "OTHER LOSSES" AND "OTHER ADDITIONS" INCLUDE ADJUSTMENTS NECESSITATED BY THE CPMIS DATA BASE BEING UPDATED AND CHANGED AS NEW ACTIONS ARE FILED. THE "OTHER ADDITIONS" AND "OTHER LOSSES" FROM MONTH TO MONTH WILL EQUAL OUT OVER THE COURSE OF THE YEAR.

NOTE: THE PROJECTION FOR THE CONTROLLER WORK FORCE WAS FORMULATED IN MID APRIL. OUR PROGRESS IN BUILDING THE CONTROLLER WORK FORCE SHOWS US AHEAD OF THE PROJECTION AS OF APRIL 30, 1986. THE PROJECTION IS BASED ON INFORMATION AND ESTIMATES SUPPLIED BY THE REGIONS.

SENATOR ANDREWS: In previous Congressional hearings, FAA testified that the Academy returned to single shifts in early 1983 because field facilities could not continue absorbing the training output with the Academy operations on double shifts. In January 1985, however, the Academy went back to double shifts for center controllers. Given these facts and the acknowledged shortcomings in on-the-job training (OJT) programs, what has been the effect on centers receiving increased numbers of developmentals? How has FAA coped with the increased flow of developmentals?

ANSWER: Developmental controller training is divided into classroom laboratory and on-the-job training (OJT). The actual impact on training department resources is directly affected by the amount of developmental controllers in a particular input graduating from the FAA Academy.

Classroom and laboratory training can easily absorb increased class inputs by utilizing double sessions and back-to-back labs. However, instructor resources must be increased to meet demands.

The on-the-job portion of the developmentals training is driven by several factors, which may or may not impact the developmentals progress towards the full-performance-level controller status. This is due to controller shift rotation, traffic peaks and valleys, availability of OJT Instructors, and the amount of training days per week allocated to a developmental controller. At present, air traffic facilities are able to meet developmental training demands with only minor or limited delays in training.

SENATOR ANDREWS: What training improvements have been delayed because of a lack of funds? How much additional funds are needed to expedite testing and then implementation of the improvements?

ANSWER: Implementation of stages 3 and 4 of the improved Air Traffic screening, placement and training program will be delayed. Timely implementation of stages 3 and 4 is dependent upon establishment of an Academy tower simulation laboratory and enhancement of the radar training facility at the Academy. F&E budget requests for both of these facilities required revision, and their effect on implementation of the Air Traffic screening, placement and training program was not readily apparent, so they were deleted from the FY 1987 F&E budget request. The FY 1988 F&E budget submission will contain a request for $1,300,000 for establishment of an Academy Tower simulation laboratory and $9,500,000 for radar training facility enhancements. Additional contract instructional services for the development of training scenarios costing an estimated $4,500,000 will be requested in the FY 1988 Operations budget request.

RETIREMENTS

SENATOR ANDREWS: How many controllers will retire in FY 1986? How many have retired already this year? How many will become reemployed annuitants?

ANSWER: We are projecting 490-500 ATCS retirements in FY 1986, of this number, 240 are ATCS's in the controller work force. To date a total of 228 employees in Air Traffic have retired. 153 of these retirements were full performance level controllers (FPL). We currently have no indication of how many potential retirees would request, or would be considered for, employment as reemployed annuitants.

SENATOR ANDREWS: What contingency plan does FAA have for those facilities that have large percentages of retirement eligible personnel particularly at the first-line supervisor level?

ANSWER: The FAA tracks eligibility for retirement and actual retirements through a monthly automated report which separately lists all centers and the major pacing airports. These reports are made available to each regional office so that managers are aware of the trend data. We do not have a specific contingency plan to deal with large scale retirements in that past retirements have followed a very consistent pattern. If large scale unprecedented retirements did occur, we would take appropriate actions based on the severity of the losses. These actions would include a wide range of selective options similar to what we used during the controllers strike.

CONTROLLER SHIFTS

SENATOR ANDREWS: If Federal Aviation Administration's (FAA) own policy is that controllers should not work more than 2 hours at a radar position, why did GAO find that half of controllers report they exceed 2 hours during periods of peak traffic?

ANSWER: The FAA's practice is to rotate controllers between busy positions, and those less busy as often as possible. The period of time a controller should spend on a heavy volume sector is generally accepted to be 2 hours. However, there are unique times when this process is interrupted due to mismatches in proficiency or when heavy traffic situations which require high levels of controller concentration prevent strict adherence to our practice of position rotation is adhered to with consistency.

CROSS OPTION

SENATOR ANDREWS: GAO's study points out that FAA was attempting to correct the controller shortfall (at enroute centers) by allowing controllers to transfer to jobs where there were acute shortages. However, your current plans for dealing with Gramm-Rudman-Hollings cuts precludes this initiative. Isn't that true?

ANSWER: The Gramm-Rudman-Hollings cuts will have a direct affect on the cross-option program. At the present time, we are planning to continue the cross-option program, but to defer a small portion to FY-1987. This will have minimum impact on the program.

SENATOR ANDREWS: Will you reinstitute this "Cross Option" when the $80 million supplemental request is approved? How do you intend to fill in behind the controllers who move from towers to centers?

ANSWER: The $80 million supplemental will not modify our current plan. Back filling behind terminal controllers selected for the cross-option program will be kept to a minimum and will be accomplished through new hires. One of the primary reasons for instituting the cross-option program was the overstaffing in the terminal option.

WEATHER/TRAFFIC ADVISORIES

SENATOR ANDREWS: Are you aware that controllers are sometimes denying pilots' requests for weather and traffic advisories during peak periods according to the GAO study? What is FAA's policy on this? Given the safety risk of weather turbulence, shouldn't all weather requests be answered?

ANSWER: The FAA's policy on issuing weather and traffic advisories is as follows:

The controller's first duty priority is separating aircraft and issuing safety alerts to aircraft in unsafe proximity to terrain, obstructions, and other aircraft. Traffic advisories are issued to all aircraft on a controller's frequency if in the controller's judgment the aircraft separation may diminish to less than established separation minima and at other times when controller workload, volume of traffic, frequency congestion and other variables permit. Weather information is disseminated as soon as feasible when the higher priority of separating aircraft is satisfied. Controllers issue all pertinent weather information as soon as practical after receipt of said information. There may be instances where this does not occur, but this should be on rare occasions. Without specific incidences, its hard to determine how a situation develops.

It is virtually impossible to develop a standard list of duty priorities that would apply uniformly to every conceivable situation because of the enormous amount of variables involved. Each set of circumstances must be evaluated on its own merit, and when more than one action is required, the controller exercises his/her best judgment based on the facts and circumstances known. That action which is most critical from a safety standpoint is performed first.

TRUST FUND

SENATOR ANDREWS: The budget shows a $5.3 billion FY 1987 Trust Fund balance, even with the proposed change in law to increase by $2 billion the Trust Fund share of operations. What does FAA consider to be an adequate balance in the Trust Fund and what rationale was used for determining this balance?

ANSWER: The projected $5.3 billion Trust Fund balance at the end of FY 1987 includes the uncommitted balance of $1.4 billion plus the committed reserve funds equivalent to the cumulative shortfall between authorizations and appropriations ($2.4 billion), and the money committed to liquidate outstanding AIP obligations ($1.5 billion). The FAA considers the money committed to liquidate outstanding AIP obligations as dedicated to AIP contracts and as such unavailable for other purposes. This leaves a projected "unused" balance of $3.8 billion at the end of FY 1987. Because appropriated funds were less than the authorized level, the $3.8 billion "unused" balance is substantially higher than intended when the Airport and Airway Improvement legislation was enacted in 1982. Initially, in 1982, the FAA projected that with current tax rates and authorized funding levels, the uncommitted balance at the end of 1987 would be $1.6 billion. A trust fund balance of $1 billion would provide an adequate reserve to finance emergency expenditures for operating and improving the National Airspace System and a margin against shortfalls in projected tax receipts.

SENATOR ANDREWS: Does FAA believe that excise taxes and the Trust Fund should be used in such a way as to help reduce the budget deficit as well as fund aviation projects?

ANSWER: The FAA believes that aviation user taxes should be dedicated to pay for costs incurred in providing service to users of the National Airspace System. The FAA has determined that 85 percent of total system costs are attributable to the private sector (air carriers and general aviation) and seeks to recover these costs through established excise taxes.

SENATOR ANDREWS: When will FAA's cost allocation study be completed? Do you expect that the results should be used to determine tax rate levels? If not, why not?

ANSWER: The Airport and Airway Cost Allocation Study will be completed in the Summer of 1986. The user cost shares developed in this study will be considered in formulating user tax rates for post-1987 authorizing legislation.

SENATOR ANDREWS: GAO calculates that, if no change is made to tax rates or Trust Fund legislation, the unused balance could grow to $12.4 billion by the end of FY 1990. Do you agree? If not, why not? Which of GAO's options to reduce the balance does FAA support?

ANSWER: The GAO ending 1990 balance of $12.4 billion assumes that the annual level of expenditures will be $500 million for Airport Grants, $1,164 million for F&E, $127 million for R, E, &D and $670 million for operations and maintenance. In addition, interest accruing to the Trust Fund will continue at $800 million per year. While GAO's calculations are correct, it is unlikely their assumptions will remain valid through 1990 thus invalidating the $12.4 billion unused balance projection.

SENATOR ANDREWS: What Trust Fund impact is occurring as a result of lowered oil prices?

ANSWER: The major impact on the Trust Fund of lower oil prices is in the revenue derived from the passenger ticket tax. Lower oil prices, resulting in lower fuel prices and airline operating costs, have combined with other structural changes in the airline industry enabling airlines to lower fares in a competitive environment. Air carrier passenger revenue miles are slightly higher than originally projected in 1982, but yields are substantially lower than anticipated (lower by an average 2.6 cents per revenue passenger mile from FY 1982 through the present). The net result of lower airline yields is a coincident reduction in expected passenger ticket tax revenue. While we cannot isolate the effect of lower oil prices, the combined effect of all changes in the airline industry is an estimated $2.2 billion reduction in passenger ticket tax revenue, compared to our 1982 projection of revenue for the period FY 1982 through FY 1987.

AUTHORIZING LEGISLATION

SENATOR ANDREWS: What is the status of legislation reauthorizing the Aviation Trust Fund?

ANSWER: We are currently working within the Department of Transportation on airport and airway legislation for the post-1987 timeframe. We hope to complete our efforts this summer, at which time the draft will be transmitted to the Congress.

SENATOR ANDREWS: What is FAA's position on each of the following: Taking the trust fund off budget; establishing a private corporation for air traffic control; and changing or eliminating the "penalty provision"?

ANSWER: The FAA sees no immediate advantage to taking the Trust Fund off budget. Trust Funds would still be Federal dollars, requiring authorizations and appropriations, and would be subject to whatever obligation ceilings Congress chooses to enact.

The FAA expects the Administration to propose a renewal of the Airport and Airway Program authorizing legislation which meets the requirements of the air transportation system within the context of the present organizational structure. The issue of establishing a private corporation for air traffic control requires further study.

The FAA does support elimination of the so-called "penalty provisions" of the 1982 Airport and Airway Act. The primary effect of the provisions has been to restrict use of trust funds forcing financing of 72 percent of FAA operations from the general fund.

SENATOR ANDREWS: What major changes from the current program will be recommended?

ANSWER: FAA objectives are to recommend a program that meets the most critical needs of aviation, is fiscally responsive to the realities of the national deficit and has a reasonable prospect of acceptance by the aviation community and Congress. A specific legislative proposal will be given to Congress in the near future.

NAS PLAN

SENATOR ANDREWS: In a recent letter to Congressman Glickman, about the National Airspace System (NAS) Plan, OMB Director Miller stated that "considerable technical difficulties ... hampered progress", and "specifications for many...projects were not as well defined as we were led to believe...". The letter goes on to identify only two major projects which are on schedule. Do you agree with Director Miller's assessment?

ANSWER: As of December 1985, seven percent (7%) of the projects in the NAS Plan have been completed. Approximately fifty percent (50%) of the 90 NAS Plan projects are on, or ahead of, schedule. Of the 11 Major System Acquisition (MSA), 2 are expected to be completed in accordance with the original schedule. The remainder are projected to be completed later than initially planned for a variety of reasons, including technical difficulties and the exercise of fiscal restraint.

SENATOR ANDREWS: Is progress on the NAS Plan contingent on technical evolution, or on budget constraint?

ANSWER: Up to this point, progress on the NAS Plan has depended primarily upon the technical progress in the procurement planning and development phases of the projects. However, as contracts are awarded, continued progress at planned rates will be heavily dependent on future Trust Fund Authorization funding levels.

NAS PLAN, GENERAL

SENATOR ANDREWS: What is the current estimated cost to totally fund the National Airspace System (NAS) Plan through its completion (F&E and Associated R&D)? When is funding of the NAS Plan expected to be completed, and when are the projects in the NAS Plan expected to be fully operational? Provide a project-by-project breakdown of estimated costs and scheduled completion dates.

ANSWER: The Facilities and Equipment cost to fund the NAS Plan is estimated at $12.259 billion and the associated R&D cost is approximately $725 million. Funding for the NAS Plan was originally planned to be completed by FY 1992, but will depend on the final outcome of the 5-Year reauthorization level for the Airport/Airway Program which is expected to be passed by Congress later this year. A listing of the major NAS programs that account for the majority of the Plan dollars are as follows:

NAS Plan Program	Scheduled Completion Date	Estimate Cost FY 82-92 (Dollars in Millions)	
		F&E	RE&D
HOST	1987	$280.8	$125.0
AAS	1994	2,609.9	419.3
FSAS	1992	230.7	18.9
AWOS	1997	133.0	6.5
VSCS	1992	341.2	86.6
MLS	1998	764.9	.3
MODE-S	1994	456.4	5.6
ASR-9	1990	472.8	0
Fleet Conversion	1998	120.6	0
RML	1991	264.3	0
CWP	1993	96.7	57.1
3-D Radar	1993	485.2	0
NARACS	1989	82.4	0
NADIN	1991	53.5	5.3
RCE	1992	203.0	0
ASDE	1990	107.5	0
ICSS	1992	89.7	0
DF	2000	103.4	0
RMM	1991	229.9	0

SENATOR ANDREWS: How do these costs and time frames compare with those prepared at the time of the issuance of the original NAS Plan? What are the reasons for the differences in costs and schedules?

ANSWER: The NAS Plan for FY 1982-92 is still estimated to cost the original $11.7 billion plus $550 million for Terminal Doppler Weather Radar, for a total of $12.2 billion. The schedule for completion has slipped by 1 to 2 years due to delays in contract awards and/or technical/contractor problems.

SENATOR ANDREWS: What was the inflation factor used in developing the original NAS Plan cost estimate? Given the reduced rates of inflation in recent years, has the NAS Plan cost estimate been recomputed using a reduced inflation factor? If so, what is the new factor and should this not have reduced the estimated cost of the NAS Plan?

ANSWER: The inflation factors used in developing the original NAS Plan Cost Estimates were derived from the OMB projected inflation rates available at the time and were as follows: FY 1983 - 7.0%; FY 1984 - 5.1%; FY 1985 - 4.7%; FY 1986 - 4.1%; and FY 1987 - 3.7%.

The current estimate embodies the recent escalation factors published by the Office of Management and Budget which has, in some cases decreased over a period of time. The most current factors are FY 1987 - 4.2%; FY 1988 - 4.0%; FY 1989 - 3.7%; FY 1990 - 3.4%, and FY 1991 - 3.1%. Any savings, however, associated with the declining escalation rates have been dissipated by the necessity to fund $1.5 billion of requirements or approximately 25 percent of the NAS Plan in a much later timeframe than what was originally intended.

SENATOR ANDREWS: For each of the 11 major systems in the NAS Plan, identify: (1) FAA's FY 1987 budget request to OMB; (2) the Administration's FY 1987 budget request; (3) the past amounts appropriated; and (4) the amounts obligated as of March 31, 1986. Does FAA believe that any of these systems have been underfunded? If so, provide a detailed explanation of the effect of such underfunding on the system. Also, provide an explanation for any unobligated balances.

ANSWER: The requested data is provided in the following table for the **11 programs** designated as major systems **acquisitions** (MSA). None of these programs have been underfunded.

	Facilities and Equipment Amounts in $ Millions			
	FY 1987 Request to OMB	FY 1987 Request To Congress	Appropriated Thru FY 1986	Obligated Thru 3/31/86
Advanced Automation Program				
Host	$58.1	$18.3	$339.8	$238.3
Adv. Auto Sys.	92.1	72.1	24.7	22.7
$72.2 million of the Host unobligated balance is pending the zero-sum supplemental request to transfer savings from Host to AAS. The remaining balance of $31.3 million should be obligated by September 1986.				
Flight Service Automation System	58.2	44.8	302.2	219.1
The unobligated balance is for procurement of integrated communications switching systems, Model II, AFSS equipment, installation and FSS consolidation.				
Automated Weather Observation System	20.1	20.1	39.5	11.1
Unobligated balance for procurement of 102 systems				
Voice Switching and Control Systems	0	0	0	0
F&E funding for VSCS planned to begin in FY 1988				

Microwave Landing System	90.2	43.0	140.8	101.7

Unobligated balance is for continuation of demonstration program, regional site preparation, installation, and commissioning activities and other contractual support.

Mode-S	0	0	266.7	229.6

Unobligated balance is for site preparation, installation and commissioning activities.

Airport Surveillance Radar (ASR-9)	125.1	87.9	424.9	344.5

Unobligated balance is for site preparation, installation and commissioning activities and the ASR-7/8 leapfrog program.

Radar Microwave Link (RML)	51.5	18.0	123.9	54.7

Unobligated balance is for procurement of RML systems. Funds are obligated as the contractor installs the systems which is averaging 17 a month.

Center Weather Processor	14.0	20.6	26.0	21.9

Unobligated balance is for testing and evaluation of the prototype system and other contractual support

Air Route Surveillance Radar (ARSR-4)	5.0	5.0	6.3	0.6

Unobligated balance is for engineering, and preproduction activities in support of the joint FAA/DOD program office

Aircraft Fleet Conversion	0	0	114.4	14.1

The first contract award for approximately $41.0 million is expected in June 1986. Subsequent awards for the remaining funds are anticipated through April 1987.

SENATOR ANDREWS: What is the current estimate of the savings to be achieved by implementing the NAS Plan? Compare this figure with the estimates developed in prior years, beginning with the estimate provided with the original NAS Plan. Why have these estimated savings continued to decline?

ANSWER: The FAA benefits published in the 1985 NAS Plan were $18.3 billion through the year 2000. The publication of the 1986 NAS Plan is being deferred from April to September pending a determination of the outyear funding levels to be included in the new FY 1988-1992 Trust Fund reintroduction legislation package now being developed. When these levels are determined, the corresponding benefits will be calculated and included in the 1986 NAS Plan. Based on the latest available projections of air traffic activity, the benefits are expected to be somewhat lower than last year. The 1981 NAS Plan identified $24.5 billion in FAA benefits. In 1983 this was revised to $21.5 billion and in 1984 to $21.5 billion and in 1984 to $19.9 billion.

The downward trend in NAS Plan savings is attributed to the following factors:

(1) The forecast of air traffic activity, a major factor used in the calculation of NAS Plan savings, is lower.

(2) The assessment of air traffic personnel productivity improvements for specific projects, such as Advanced Automation System, Flight Service Automation System, Automated En Route Air Traffic Control, and Area Control Facility, has been refined with the passage of time, with a net effect of reducing calculated savings further.

(3) The System Engineering and Integration (SEI) contractor's audit of the field maintenance personnel cost reductions concluded that a "one-third reduction in technical staff" is achievable rather than the 50 percent reduction calculated in earlier plans.

SENATOR ANDREWS: What NAS Plan impact will occur as a result of the $43 million facilities and equipment, and the $8.2 million R&D amounts sequestered March 1, 1986? What schedule slippages have resulted? Were any critical safety activities affected?

ANSWER: The reductions in the Facilities and Equipment Appropriations are contributing to the buildup of a bow wave of resources required in the future for the completion of the NAS Plan. In the near term, the judicious deferral of nonscheduled critical activities will help to keep the NAS Plan essentially on schedule without affecting critical safety related items.

Of the Research Engineering and Development amount sequestered, there were no significant schedule slippages nor were any critical safety activities affected.

OPERATION OF TRAFFIC CONTROL SYSTEM

SENATOR ANDREWS: The air traffic activity is proposed to increase over $45.5 million in FY 1987, but 571 positions are reduced. 325 of these reductions are attributed to "Overhead Staffing" at centers and towers. The budget also proposes adding 525 positions at centers and towers. Specifically, what personnel at centers and towers are "overhead," and will the additional 525 in FY 1987 be controllers?

ANSWER: All personnel at centers and towers not in the Controller Work Force are classified as overhead. All of the 525 additional positions in FY 87 are controllers.

SENATOR ANDREWS: With entry-level controllers the main air traffic personnel increase, which is more than offset by reductions in more senior "overhead" personnel, why does the air traffic activity require a $45.5 million increase?

ANSWER: The air traffic needs the increase to cover uncontrollable items of expense such as grade-to-grade promotions, within grade salary increases and, merit pay. This increase also covers the cost of new positions requested in FY 1987.

FLIGHT SERVICES

SENATOR ANDREWS: The Air Traffic budget proposed (p.OPS-24) a decrease of 740 positions at Flight Service Stations. What percentage of the workforce does that represent?

ANSWER: The 740 position cut in the Flight Service Station Program is approximately 3% of the overall Air Traffic program.

SENATOR ANDREWS: In each of the three previous years, the pace of consolidations has been less than originally projected. Why, then do you project a 740-position drop in one year?

ANSWER: Our current plan calls for the commissioning of 44 automated flight service stations (AFSS) by the close of fiscal year 1987. Based on this schedule, we expect to have Model 1 operating in 37 of these facilities. In conjunction, the plan calls for the consolidation of a total of 89 existing FSS's through the end of FY 1987. This schedule is based on the continued delivery of equipment as scheduled and the funding required to relocate the personnel and services to the new facilities. The benefits of consolidation coupled with that of Model 1 will enable us to reduce FSS staffing by the projected amount.

SENATOR ANDREWS: Last year's budget justification stated that automated facility commissioning would be complete by 1991. That has now slipped to 1992; why?

ANSWER: In an effort to ensure that model 2 automation is implemented in the most effective manner, the FAA has undertaken a review of the automation program. As a result the restart of the model 2 contract was delayed. Therefore the final commissioning is now scheduled to occur in 1992.

SENATOR ANDREWS: By the end of this fiscal year, how many automated facilities will be in operation? How many of them will have Model 1 Automated Equipment?

ANSWER: By the end of this fiscal year, 23 new AFSS's will be commissioned with Model 1 automation equipment. In addition, 5 new facilities will have been commissioned with leased Service A equipment. These are planned actions and re-evaluation based upon budget constraints is underway.

SENATOR ANDREWS: Why has FAA never "certified" its Model 1 equipment, as requested by this committee? FAA "commissioned" Model 1 finally on February 12, 1986. The subcommittee has been notified, however, that the Bridgeport Model 1 system totally broke down on February 9 for 6 hours with no computer backup. Also, FAA has had to provide specialists with a handbook on how to overcome Model 1 "glitches." Under what circumstances and when will the Model 1 system be certified?

ANSWER: With respect to the Model 1 system, the terms "certification" and "commissioning" are synonymous. The system has undergone rigorous testing and once commissioned, is subject to routine diagnostic procedures conducted by qualified technicians. Prior to commissioning of each system, operational personnel make a determination that the software is performing properly. The FAA certified in writing to the Committee on March 14 that the Model 1 system had been commissioned at Cleveland on February 12.

On February 9, we recorded a series of short outages over a duration of 6 hours. Anomalies of this nature are not unusual given the size and complexity of the system. Our experience with automated systems indicates that occasionally such problems are detected only under actual field conditions, regardless of the level of testing in a laboratory environment. None of the problems encountered are of a catastrophic nature and we have established interim operating procedures to ensure a continued acceptable level of service. We are monitoring the operation of these systems on a continuing basis and are working with the contractor to resolve any difficulties. During the outage periods, the three AFSS's involved, Bridgeport, Cleveland, and Dayton, continued an acceptable level of service using the Western Union equipment.

SENATOR ANDREWS: How well is Model 1 working? Do the flight service specialists feel it yields "equal or better service"? Do pilot surveys show that "equal or better service" is being provided?

ANSWER: Model 1 has been commissioned at 11 automated flight service stations and 4 additional commissionings are scheduled within the next 30 days. The system has been accepted favorably by FSS specialists. Initial surveys at these facilities have shown service which is equal to or better than that provided before consolidation. Periodic measurements show a steady improvement in quality and quantity of service and productivity. These analytical data are supported by surveys of user attitudes which demonstrate that the vast majority of users also believe that service is equal to or better than that received before consolidation.

SENATOR ANDREWS: What will be the automated facility commissioning schedule in FY 1987? Will each automated facility have Model 1: In other words, will commissionings better coincide with equipment availability, as this committee has mandated?

ANSWER: Our schedule calls for the commissioning of 15 automated flight service stations (AFSS) in FY-1987, 9 of these sites will operate with Model 1. This will bring the total number of commissioned new facilities to 44 and 37 operating with Model 1. These are planned dates and actions-a re-evaluation based upon budget constraints is underway.

GRAND FORKS

SENATOR ANDREWS: When will the Grand Forks automated facility be commissioned? Will that facility have Model 1 at the time it is commissioned? What consolidations are currently scheduled for North Dakota?

ANSWER: The Grand Forks automated flight service station (AFSS) is scheduled to be commissioned May 31, 1987. The facility will open with Model 1 equipment. Jamestown is scheduled to be consolidated into Grand Forks to support commissioning of the new facility.

SALISBURY MARYLAND

SENATOR ANDREWS: What is the status this fiscal year on the Salisbury flight service station? When will it be consolidated? How has FAA responded to regional concerns that safety will be compromised by this consolidation?

ANSWER: The Salisbury FSS was scheduled for consolidation into the new facility at Leesburg in fiscal year 1986. Due to budgetary constraints, FAA is reviewing the entire FSS implementation plan. FAA has assured all interested parties that consolidation of Salisbury into Leesburg will not result in any derogation of safety. All essential air ground communications as well as telephone preflight planning services to the area will be maintained. Weather observations will also be provided.

FLIGHT SERVICE STATIONS

SENATOR ANDREWS: Is the FAA's January 27, 1986, letter still an accurate summary of planned flight service stations (FSS) actions for FY 1986-1988? If not, please explain.

ANSWER: FAA's January 27, 1986, letter stated that 31 consolidations are planned for FY 1986, 41 consolidations are planned for FY 1987, and 53 consolidations are planned for FY 1988. Because of the uncertainty over the availability of funds for fiscal year 1986, the agency is in the process of conducting a review of all AFSS/FSS commissionings/consolidations. The possibility exists that, as a result of this review, some AFSS/FSS commissionings/consolidations may be deferred.

SENATOR ANDREWS: Provide a site by site report on the status of all FY 1986 AFSS commissionings shown on Page 238 of Senate Volume 2. Show all facility closings associated with each.

ANSWER: Extenuating circumstances, e.g., site selection and construction delays, have caused some changes to referenced 14 locations. Additionally, budgetary limitations may require that some of the currently scheduled activities be deferred to some future year. The current status of these locations is as follows: Six of the AFSS's are collocated with an existing high activity FSS and will not require any consolidations for purposes of commissioning. The six AFSS sites are:

FACILITY	SCHEDULED DATE
Nashville, TN	4/86 - Completed
St. Petersburg, FL	7/86
Miami, FL	10/86
Millville, NJ	1/87
San Diego, CA	4/87
Raleigh, NC	12/87

The remaining 8 AFSS's are either collocated with a lower activity FSS (insufficient personnel to support transition) or do not have a collocated FSS. Consequently some level of FSS consolidation is required to support transition. The 8 AFSS sites and associated FSS consolidations are:

FACILITY	FSS CONSOLIDATION	SCHEDULED DATE
Kankakee, IL	Chicago, IL	6/86
Cedar City, UT	Salt Lake City, UT	6/86
Columbus, NE	Omaha, NE	7/86
Princeton, MN	Minneapolis, MN	8/86
Williamsport, PA	Harrisburg, PA	9/86
Riverside, CA	Ontario, CA	9/86
Anderson, SC	Greer, SC	2/87
Elmira, NY	Site Selection Under Litigation	

SENATOR ANDREWS: How much of the requested $44.8 Million is assumed for these FY 1986 actions?

ANSWER: The $44.8 Million requested is needed to fund actions planned for FY 1987.

SENATOR ANDREWS: How much is available from past year's appropriations to fund FY 1986 actions.

ANSWER: $31.7 million was appropriated in prior years for the activities listed in the table above. All of these funds are required to complete those projects.

MODEL II

SENATOR ANDREWS: The next stage goal for flight services has included the capability for direct user access. It now appears clear that private providers are available for pre-flight weather briefings. What progress has FAA made in exploring private provider systems for these briefings as well as filing flight plans?

ANSWER: The FAA has completed its review of all the issues concerning the implementation of the direct user access system. As a result, we have decided to utilize existing private sector technology to satisfy the direct access requirements for weather briefings and filing flight plans. Activities are presently underway to develop the necessary requirements documentation and procurement strategies.

SENATOR ANDREWS: By letter on February 26, FAA told the Committee that a final report would be available on direct user access by this hearing. May we have that report?

ANSWER: The final report on the direct user access system has been completed and should be available to the Committee shortly.

SENATOR ANDREWS: Has FAA in-house Model II development been halted?

ANSWER: All in-house FAA Model II software development was halted (Stop-Work) 2 years ago, pending successful demonstration of Model 1. "Stop-Work" continued pending resolution of Flight Service Automation System vs Vendor supplied Graphics and Direct User Access Terminals (DUAT's). Recent relief of "Stop-Work" allows specific Model II documentation development only. Expected turn-on of Model II is 10/86, without Graphics and DUAT's (will utilize vendor systems).

SENATOR ANDREWS: Are any FY 1987 funds requested for Model II?

ANSWER: Six million six hundred thousand dollars is being requested in FY 1987 for Model II automation.

LEVEL OF FLIGHT SERVICES

SENATOR ANDREWS: Once again, actual data on the level of flight services shows a decrease (-3.3% for 1984-85), as opposed to projected increases (last year 1984-85 projected to increase 8.7%). Why are services declining? On what basis does the budget propose a 3.5% increase in FY 1987 with 740 fewer positions?

ANSWER: Historically the activity level at flight service stations (FSS) generally followed the trends of activity measures at both centers and towers. Since the PATCO strike, FSS activity has not returned to this historical relationship. The decline in FSS services can be attributed to several factors; services provided by the private sector, the introduction of FAA sponsored pilot direct access capability, and the increased cost of liability insurance to general aviation operators. The FY 1987 budget reduction of 740 positions is based on productivity gains assuming the planned FSS Modernization Program, can remain on schedule.

AIR TRAFFIC - OTHER COSTS

SENATOR ANDREWS: Provide a detailed breakdown of other costs for Flight Services now estimated to be $8.7 million in FY 1986, explaining all increases over the FY 1986 requested amount of $5.5 million.

ANSWER: The increases for other costs is broken down below:

	1986 Col. 1986 Est.	1986 Col. 1987 Est.	Change
Travel	893.8	1,337.7	+443.9
Transp. of Things	1,184.2	1,947.3	+763.1
Contract Weather Observation	2,935.0	4,539.1	+1,604.2
Storage of HH Goods	295.9	503.7	+207.8
All Other	210.1	410.1	+200.0
	5,519.0	8,738.0	+3,219.0

SENATOR ANDREWS: Provide the same analysis for Planning, Direction and Evaluation which has grown from an original FY 1986 level of $15.8 million to $21.7 million.

ANSWER: The information for other costs is broken down as shown below:

	1986 Col. 1986 Est.	1986 Col. 1987 Est.	Change
Charting Program	13,969.0	14,200.0	231.0
Contractual Services, Printing Rents, Communications, and Utilities	12,530.0	7,535.0	-4,995.0
Subtotal	26,499.0	21,735.0	-4,764.0
Offset to Reduce Cost of Administrative Savings	-10,715.0	-0-	+10,715.0
	$15,784.0	$21,735.0	$5,951.0

The $10,715.0 was made to "reduce cost of administrative services." This reduction, however, has not occurred due primarily to uncontrollable items of cost such as contracts, supplies, etc.

CENTER AND TOWER FURLOUGHS

SENATOR ANDREWS: The justification requests an additional $22.1 million for towers (Ops-27) and $22.4 million for air route centers (p. 25) to "avoid repetition of furloughs and early outs that are taking place in FY 1986". How many furlough days is this FY 1987 request based on? For which employee categories?

ANSWER: At the time the budget justifications were prepared, the FY 1986 level assumed approximately a 14 day furlough for all categories of employees paid from the Operations appropriation. Subsequent to this, a supplemental has been requested which, if appropriated, would avoid the necessity for a furlough. If restoration of these funds for FY 1987 is not provided, and if no other means of saving an equivalent amount of funds can be found, approximately the same length of furlough would be required in FY 1987.

SENATOR ANDREWS: Are these funds based on the current 14,000 controller workforce level, the Secretary's projected September 30, 1986, 14,480 level, or the full 15,000 by-the-end-of FY 1987 level?

ANSWER: These funds anticipated that the controller workforce would be 14,480 by the end of FY 1986.

OVERTIME

SENATOR ANDREWS: FY 1987 Air Traffic funding increases are partially offset by overtime reductions ($5.4 million less at centers and $5.7 million less at towers.) Is this overtime of controllers handling traffic? Supervisors, or other support categories such as air traffic assistants?

ANSWER: Overtime is not allocated for use by type of position (controllers, supervisors, air traffic assistants, etc.). Management gives facilities guidance on the use of overtime. However, overtime basically is used in support of the controller operation in the control room.

SENATOR ANDREWS: Last year, FAA testified (House, Vol. 6, p. 202) that the FY 1986 budget request would support 630,000 hours and $21 million for center and tower overtime. The actual FY 1985 level was 857,100 hours and $26.7 million. Will FAA achieve its 630,000 hour goal this fiscal year? If not, what are the current projections?

ANSWER: We expect to achieve our goal of 630,000 hours this fiscal year.

SENATOR ANDREWS: On what controller work force level is the FY 1987 level of 621,000 hours and $15.5 million based? Does the budget project these savings because controllers are declining to work overtime?

ANSWER: Controllers are not declining to work overtime. The rate of FPL's has increased steadily, thereby, reducing the need for Overtime.

SENATOR ANDREWS: What is the status of the overtime study being conducted by FAA last year? Did it conclude that a 600-700,000 hours per year level was optimum? Why or why not?

ANSWER: The study has not been completed. What started out as a simple exercise in economic analysis, turned out to be much more complex. There appears to be other factors which impact the overtime decision. For example, there is a different impact, both economic and physical, depending upon whether the overtime is in addition to a controller's daily schedule -- an extra 2 hours on a day already worked, or if the controller is called in for a 6th day in a week.

There is a differential impact if the overtime is to control traffic or to provide training. The desirable level of overtime is also affected by annual and sick leave policies and how facilities schedule their work force. Because of our work in developing staffing standards, we have become very sensitized to the relationship between shift schedules and total staffing requirements, including the need for overtime. It will be hard, however, to stabilize on an optimal overtime requirement until we stabilize our work force.

TOWERS AND CENTERS "OTHER COSTS"

SENATOR ANDREWS: The FY 1987 budget requests $833,000 more for center travel, and $922,000 more for tower travel. Why, given the fact that the FY 1986 base now shown for other costs has grown $2.5 million and $900 thousand, respectively, from "other costs" originally requested last year?

ANSWER: The "other costs" increase is due primarily to an escalation of costs associated with permanent change of station moves. These costs have doubled, in most instances, over the past year.

SENATOR ANDREWS: How much is being spent this fiscal year for center and tower travel?

ANSWER: An estimated $6.7 million is for travel in the centers and towers.

SENATOR ANDREWS: How many change-of-station moves are anticipated in FY 1987? How does this compare to FY 1985 and this year?

ANSWER: The estimated number of change-of-station moves are 575. This compares to an estimated 600 moves in FY 1985 and 550 moves in FY 1986.

OPERATIONS - SYSTEMS MAINTENANCE

SENATOR ANDREWS: Will Airway Facilities maintenance personnel be exempt from any necessary furloughs, as the controllers and inspector work force are?

ANSWER: We are looking at two options should furloughs be necessary. Under one option, all employees would be furloughed; under the other, air traffic controllers, inspectors, maintenance, and security personnel would be exempted from furloughs. No decision has been yet made on which option to select if furloughs are required.

SENATOR ANDREWS: Does the hiring freeze still apply to facility maintenance personnel? When will it be lifted? How long does it take to train maintenance personnel on the average?

ANSWER: The hiring freeze does not apply to facility maintenance personnel. The authority to backfill for critical vacancies was provided to the regions on April 15, 1986, after having been in effect for about 3 1/2 months. It takes approximately 3-5 years on an average to provide adequate resident and on-the-job training to develop fully qualified journeyman technicians.

SENATOR ANDREWS: Like the controller work force, a large percentage of maintenance technicians are eligible to retire. What is the current retirement ratio, and what is being done to retain senior technicians?

ANSWER: Approximately 12% of our technician staff are eligible now. In addition, the number of technicians eligible to retire over the next several years does concern us. We need to review this further and take steps to avoid any adverse impact on system efficiency or safety.

SENATOR ANDREWS: The FY 1987 budget requests an additional $51 million net for maintenance of the traffic control system. Within the total, however, $12.3 million and 359 positions are reduced for maintenance. Is this wise given the internal FAA analysis that concludes there are insufficient funds and staff to maintain the current system?

ANSWER: The $12.3 million and 359 position reduction in the maintenance program is part of a long-term staffing reduction plan reflecting the NAS Plan implementation and other efficiency and productivity measures. We believe that sufficient resources to properly maintain the current system in a safe manner are provided. Our problem is a prospective one, not necessarily with the number of authorized positions, but with the age of technician work force and the low employment level we are currently experiencing. In the near future, if unchecked, attrition will outpace our productivity gains and that could constrain our ability to maintain the system to the same level as today. To correct this problem, we have lifted the hiring freeze in the second quarter of this year to allow regional directors authority to hire in a critical shortage situation. In FY 1987 and 1988, we plan to take steps to assure on board staffing is brought up to our fully funded FTE levels.

LORAN-C EXPANSION

SENATOR ANDREWS: Last year, Congress provided $5 million in "Facilities and Equipment" for expanded LORAN-C navigation system coverage. This years request is $43 million, and the operations request includes an additional $81,000 for 30 LORAN-C signal monitors (P.OPS-62). Will this request complete the project? How much will the Coast Guard be reimbursed for additional transmitters annually?

ANSWER: The FY-1987 request will complete the FAA LORAN-C project. At the request of the FAA, the Coast Guard will procure, install, operate and maintain midcontinent transmitters. Annual operation and maintenance (O&M) costs for each of the transmitters will be approximately $250,000. The FAA will support the annual Coast Guard budget request for O&M funds to continue operation of the new transmitters rather than conducting a long series of annual reimbursements.

SENATOR ANDREWS: Last year the subcommittee was informed that the cost/benefit of expansion was still under review. What conclusions were reached?

ANSWER: The conclusion of the cost/benefit study was that the midcontinent expansion of LORAN-C will have a positive benefit-to cost ratio of 1.05. The study assumed benefits for only general aviation and air taxi users and excluded benefits for nonprecision approaches to airports that have existing or planned instrument approaches involving other systems.

TOWER CONTRACTOR MAINTENANCE

SENATOR ANDREWS: Your statement (p. 21) mentions contract maintenance of some Airway Facilities equipment in selected regions. I understand the three regions selected include Senator Chiles' state and mine. Is that correct?

ANSWER: Yes, the regions involved are Eastern, Great Lakes, and Southern with Florida and North Dakota included in the latter two regions.

SENATOR ANDREWS: At which towers will the Pilot Test be conducted, and for how long?

ANSWER: A determination as to the specific facilities and locations to be involved has not yet been made. The pilot test is expected to be for 3 years with two 1-year contract options currently being considered.

SENATOR ANDREWS: Exactly what Airway Facilities will be maintained by contract? Why is Federal responsibility being shifted for these facilities? How much oversight of contractor maintenance will FAA conduct (assuming oversight)? How will contracting be cost-effective if FAA still must ensure proper maintenance?

ANSWER: Since the pilot program will involve 500 positions, this amounts to approximately 5% of our total systems maintenance work force. The candidate maintenance functions associated with the pilot program are typically related to low activity locations. These facilities present minimum risk to movement of aircraft in the overall NAS. Some non-ATCT airports, level I ATCT airports, and level II ATCT airports without radar would be included in the program. We would expect that nearly all the facilities on and in the immediate vicinity of these candidate airports would be included in the program.

The FAA has an obligation to provide the flying public with a high level of safety and service at minimum cost to the taxpayer. The test would be designed to determine whether the private sector can provide the same degree of service at a lower cost.

Quality assurance will remain the responsibility of the FAA.

SENATOR ANDREWS: Would the FAA budget include this initiative were it not for overall Federal employment reductions mandated by OMB?

ANSWER: The impetus for this initiative came from outside FAA. However, because we have an obligation to provide the flying public with a high degree of safety and service at minimum cost to the taxpayer, the proposal we have put forth can stand on its own merits with respect to that objective.

SENATOR ANDREWS: The budget requests (p. OPS-54) $10 million for a pilot test of contractor maintenance at low activity towers. What does FAA currently spend on these towers for maintenance?

ANSWER: The total start-up cost of this program will be $17 million. However, the $10 million only covers part of the start-up costs and is not the total estimated program cost. Further, the maintenance work will involve other facilities such as navigational aids, visual landing aids and remote communications equipment, as well as some ATCT equipment. The specific sites have not been identified and to give a cost estimate now would not have any validity.

INSPECTORS

SENATOR ANDREWS: Will the planned increase in the number of inspectors provide adequate surveillance of the airline industry? What has FAA done to reduce the workloads of inspectors responsible for commuter airlines? Does FAA regard the current workloads of these inspectors as unrealistic?

ANSWER: The FAA is currently providing adequate surveillance of the airline industry as defined by the new National Program Guidelines effective October 1, 1985. The National Program Guidelines spell out the minimum number of inspection and surveillance tasks for a particular airline and sets priorities for field inspectors. By lowering the priority of demand functions such as certification work, a temporary reduction in the workload of individual inspectors, including those responsible for commuter airlines, has been realized. This temporary relief makes the current workload of these inspectors realistic. As new inspectors are hired and trained, further gains in workload distribution can be achieved. Additional adjustments to individual inspector assignments will be made following the arrival of qualified new hires at field locations.

SENATOR ANDREWS: What impact did FAA's National Program Guidelines, published in October 1985, have on the type, number, and allocation of inspectors? What effect will the national inspection plan have on the number of inspectors? What steps is FAA taking to assure adequate inspection coverage until there are enough inspectors?

ANSWER: The National Program Guidelines (NPG) were published subsequent to the development of interim staffing standards that were used to determine present inspector staffing requirements. Staffing specialists are developing a new staffing standard that will incorporate NPG requirements. Similarly, National Inspection Plan (NIP) workload is not directly addressed by the interim staffing standards, but NIP requirements will also be included in the new staffing standards. Both of these programs increase the need for additional inspectors. Until the inspector work force is fully staffed, FAA will closely monitor NPG and NIP work accomplishments to ensure that inspector resources are optimally employed. Both programs will be periodically revised to shift program emphasis systematically to areas of the aviation environment requiring increased surveillance.

SENATOR ANDREWS: Does FAA have staffing levels set for each district office that determine the number of operations, maintenance, and avionics inspectors that the district office should have? How are these staffing levels set?

ANSWER: FAA staffing standards determine the number of operations, maintenance, and avionics inspectors that each district office should have given the assumptions inherent in the standards such as work rates and task frequencies. Staffing levels are set at a regional level, aggregating office requirements.

SENATOR ANDREWS: Because there are a number of program initiatives currently underway to improve hiring qualifications and training standards, wouldn't it be more prudent to develop new qualifications and training program before hiring a large number of inspectors? How effective will these new inspectors be if FAA is still in the process of determining what their qualifications should be and how much and what type of training is required? Does FAA have the training resources to handle a large influx of new inspectors?

ANSWER: There is a critical need for inspectors in all special areas to meet current inspection requirements. New hire training has been updated. The current initial qualification standards and interviewing practices have produced highly qualified candidates. While major revisions to qualification and training programs will provide more efficient and effective programs in the long term, it is necessary to continue near-term hiring using the existing system in order to meet urgent safety needs.

New inspectors are trained and checked on their knowledge of how to perform many tasks during indoctrination training. Also, a national on-the-job training (OJT) program is being implemented to ensure that each inspector is qualified in every task he/she is authorized to perform. The OJT program, therefore ensures the effectiveness of inspectors.

FAA has a training plan for all projected new hires. The plan is designed to align hiring practices with the capability of the training system to accommodate new hires. The plan permits FAA to meet its hiring goals without exceeding the capacity of the existing training system.

SENATOR ANDREWS: Does FAA believe that it will be able to attract sufficient numbers of qualified inspector candidates? Has FAA performed any studies to determine whether the quality of inspector applicants is, in fact, decreasing? What steps is FAA taking to assure that the new inspectors that it hires will be competent to perform their jobs? When does FAA plan to complete its review of inspector qualifications?

ANSWER: FAA has been able to attract a sufficient number of qualified inspector candidates. Due to the surge of airline hiring, however, FAA may be facing a reduction in both the numbers and quality of inspector candidates. In the most recent announcement during March, approximately 1,400 grade and specialist eligibilities were established by 5,500 applicants.

Flight Standards district offices conduct extensive interviews and, in some cases, evaluations of candidates. Initial indoctrination training now consists of a flying evaluation of each air carrier operations inspector, and the indoctrination course as a whole is pass-fail.

Project SAFE will result in a new hiring and training system. Current projections are that the new system will be developed by Mid 1987.

SENATOR ANDREWS: The FY-1987 budget proposes the addition of 138 inspectors (p. OPS-73). Why are these positions expected to be encumbered only half the year (i.e., 69 workyears)?

ANSWER: It is a common budgetary practice to request funding for new positions on a half-year basis. This provides for orderly planning, recruitment/selection process, possible delays in appropriations, i.e., Continuing Resolution passed December 12, 1985, etc.

SENATOR ANDREWS: The justification states (p. OPS-74) that inspection workload "sharply exceeds the capability of the current work force." What is the current work force? Have the 150 additional inspectors announced last September for FY-1986 been hired and trained? Provide for the record the number of filled positions as of March 30, 1986, relative to the FY-1986 goal of 728 air carrier and 1,032 general aviation inspectors.

ANSWER: The current work force consists of 1,760 inspector positions. The additional inspector positions were allocated to the field activities on February 12, 1986. During the months of February, March, and April 148 inspectors were hired and are in the training cycle. The numbers of filled positions as of March 30, 1986, were 647 air carrier and 849 general aviation.

SENATOR ANDREWS: The justification shows a nine percent inspection increase in FY 1986 over last year. Is this 69,990 inspections goal going to be realized? How many inspections have been conducted to-date this fiscal year?

ANSWER: The nine percent inspection increase reflects an increase in the number of operators combined with increased surveillance requirements specified in National Program Guidelines (NPG) published in October 1985. The guidelines create a quantifiable, mandatory surveillance program that consists of a minimum, annual surveillance baseline. In the first four months of Fiscal Year 1986, approximately twenty percent of planned surveillance was completed. The statistic must be interpreted in the context of several factors. First, the four months for which data are available are the worst weather months of the year. Second, the NPG were first implemented at the beginning of FY 1986. Third, automated collection of work program data is relatively new in Flight Standards field offices and NPG data collection was initiated for the first time at the beginning of FY 1986.

SENATOR ANDREWS: The budget requests (P. OPS-75) $2.2 million for contractors to audit inspection records. Is this an increase to an ongoing activity? If this is a new initiative, why did FAA feel this approach is cost effective?

ANSWER: The FAA is conducting a pilot program to determine the cost effectiveness of using contract auditing firms to assist inspectors in examining operator's records. The pilot program is called Records Examination Assistance Program (REAP). A feasibility study for the pilot program was completed in FY 1986, and the study concluded that the potential benefit of REAP was substantial. REAP reduces the amount of time inspectors must spend auditing records, thus allowing inspectors to use their technical talent in more appropriate ways.

CARRIER COMPLIANCE

SENATOR ANDREWS: Does FAA attempt to determine that all carriers are in compliance with Federal Aviation Regulations (FAR's) over any given time period? That is, can the public be assured that each carrier is thoroughly inspected at least every 6 months, 12 months, 18 months?

ANSWER: The public can be assured that each air carrier receives a minimum baseline of surveillance continually in accordance with recently published National Program Guidelines. This surveillance baseline consists of a mimimum specified number of operations, maintenance, and avionics inspections in each geographic area that the air carrier does business. Additionally, the FAA is systematically conducting indepth team inspections of a portion of the air carrier industry on a recurring, periodic basis in accordance with a National Inspection Plan. National Program Guidelines and the National Inspection Plan institutionalize inspection concepts developed during the 1984 National Air Transportation Inspection Program and ensure optimal use of available inspector resources for routine, annual surveillance and recurring inspection programs,

SENATOR ANDREWS: Does FAA have specific instructions for inspectors to use in determining compliance of each carrier and all types of aircraft?

ANSWER: The Federal Aviation Administration publishes orders, notices, and advisory circulars to provide inspectors with information which will guide and assist them in performing their duties as aviation safety inspectors. To supplement this guidance material the inspector has access to type certificate data sheets, airworthiness directives and manufacturers manuals. These are all used to determine that all types of air carrier aircraft and operations are in full compliance with the Federal Aviation Regulations.

SENATOR ANDREWS: How much judgment do inspectors have to use in determining carrier compliance with regulations?

ANSWER: Inspectors must follow the national policy guidance material.

The primary consideration in the assignment of work functions is that the inspector is appropriately qualified and competent to handle the particular situation and is thoroughly familiar with the applicable regulatory requirements. Inspectors seek guidance from supervisory, regional and headquarters personnel when on occasion this guidance material is insufficient. Temporary guidance is issued in the form of action notices and memos which are then included in the next revision of the inspectors handbook. Any judgement that an inspector makes involves the application of national policy to the decision at hand. Judgments outside of these areas are coordinated through the region/headquarters for concurrence.

SENATOR ANDREWS: Does FAA have any systematic way of determining if inspectors are doing a good and adequate job in determining compliance? If so, how is it to be done? If not, can it be done?

ANSWER: The FAA has an evaluation function for Aviation Standards programs. The Office of Aviation Standards is currently initiating improvements in the evaluation process for Flight Standards programs. Our staff is currently developing criteria to systematically determine how well field inspectors are doing their jobs. Our efforts will focus on areas such as mandatory work program accomplishment, effectiveness of training, effectiveness of national guidance, staffing adequacy, quality of technical work, and effectiveness of district office management systems.

SENATOR ANDREWS: How does FAA know if a particular carrier is, or is not, being adequately inspected?

ANSWER: National Program Guidelines mandate a minimum specified number of annual inspections to be performed on each air carrier in each FAA region in which the carrier operates. Accomplishment of this surveillance baseline is carefully monitored through an automated data processing and reporting system. Additionally, each air carrier is assigned principal inspectors for operations, maintenance, and avionics. These inspectors monitor the air carrier's compliance with the Federal Aviation Regulations on a daily basis. Reports of inspections performed on the air carrier by inspectors from other district offices are reviewed and analyzed by the principal inspectors. The principal inspectors may require additional inspection or surveillance to be performed in order to ensure that the air carrier is in continuing compliance with the regulations.

AGING TRANSPORTS

SENATOR ANDREWS: When will the FAA update its 1981 supplemental structural inspection program circular, which addressed the structural integrity of older aircraft?

ANSWER: Advisory Circular (AC) 91-56 "Supplemental Structural Inspection Program for Large Transport Category Airplanes" contains guidance with regard to the development of supplemental inspection documents applicable to older transports. Programs developed in accordance with these guidelines assure that the maintenance programs of older airplanes are properly augmented to achieve the high level of structural integrity required by the FAA and the aviation community. New models and types of airplanes are continually being added to the number currently covered by supplemental programs. No update of the basic AC is considered necessary at this time.

SENATOR ANDREWS: How much is being spent each year (FY 1985-1987) by FAA to review supplemental inspection documents to make sure older aircraft maintenance is properly augmented?

ANSWER: FAA expends a sizable effort by engineers and maintenance specialists in reviewing the supplemental inspection documents (SID) as they are being developed. After a SID is developed, it is implemented by FAA airworthiness directive action. This is followed by maintenance inspector review of the effort of each airline as it includes the SID into its individual maintenance program. In addition, FAA maintenance inspectors expend time in surveillance of each airline to assure proper execution of SID provisions. We estimate the combined effort in the period FY 1985-1987 will average 6 man-years per year to cover the three phases of the program (i.e., development, implementation, and surveillance).

MILITARY CHARTERS

SENATOR ANDREWS: What type of coordination exists between FAA and the Military Airlift Command (MAC) for notifying MAC of problem carriers? Are these procedures adequate?

ANSWER: Coordination between FAA and MAC now takes place on a daily basis. Information is exchanged concerning safety status of military contract carriers, ongoing inspections, enforcement actions and other areas of mutual interest. In addition, the military has been invited to observe special inspections on military contract operators and to attend the in/out briefings associated with these inspections. Final inspection reports are furnished to MAC as soon as they are complete. Additionally, the military has agreed to assign a MAC laision person to FAA Washington headquaters in the near future. This person will have access to all information that could be of interest to the military. We believe the current procedures are more than adequate.

SENATOR ANDREWS: Remaining unanswered from the February 19, 1986, overview hearing is the question of specific communication between FAA and the Military Airlift Command on Arrow Air before the Gander crash. Please provide that now.

ANSWER: Prior to the Arrow Air crash the FAA interpretation of required coordination procedures was to inform the military only in situations where air carrier certificate suspensions or revocations were involved. In the case of Arrow Air, this led to some inspection items with safety implications that were not passed to the MAC survey team. This has since been corrected through revised reporting procedures and an overall upgrading of the FAA/MAC communication and coordination system.

SENATOR ANDREWS: How did FAA select the military charter airlines that it will be inspecting? Will these inspections go beyond FAA's normal procedures? When can we expect interim reports on each airline and a final report?

ANSWER: All the air carriers listed by Military Airlift Command Headquarters as having performed international, passenger-carrying operations in Fiscal Years 1984 and 1985 were selected for inspection. By mutual agreement between FAA and Department of Defense (DOD), some air carriers were dropped from the list because they no longer provided DOD with passenger-carrying services.

The inspections being conducted on these air carriers are very thorough, indepth inspections. FAA inspection teams are using a written, detailed inspection protocol which is designed to examine all certification requirements of an air carrier. The protocol requires a depth of inspection that exceeds other written guidance for performing routine surveillance.

Inspection reports will be published for each airline inspected. Reports have been completed for inspections of Eastern Airlines, Inc.; Arrow Air, Inc.; Rich International Airways, Inc.; Tower Air, Inc.; Evergreen Airlines, Inc.; and American Trans Air, Inc.

AVIATION STANDARDS - FLIGHT PROGRAM

SENATOR ANDREWS: What fuel costs estimate was used to calculate the Aviation Standards - Flight Program FY 1987 request of $60.8 million. Provide an estimate of savings using current fuel estimates.

ANSWER: Due to slippage in acquiring new aircraft, the revised fuel requirement for FY 1987 is 8,997,353 gallons at current price of $1.10 for $9,897.3 or a net savings of $117.2. Had not the slippage in aircraft acquisition occurred, the FAA would have saved $1,914.5.

AVIATION STANDARDS - SECURITY

SENATOR ANDREWS: The general justification for Aviation Standards - security has been expanded to include safeguarding against sabotage. Outline the major steps underway to implement the 1985 International Security and Development Act.

ANSWER: Approximately 180 foreign airports are subject to the e assessment program called by Public Law 99-83 since they are served by U.S. cariers or are the last point of departure to the United States for a foreign carrier. Of these, the FAA identified 50 major airports for immediate, comprehensive assessments that were assessed in 1985. Some of the airports were visited several times.

Between mid-August and early November 1985, 79 additional airports were visited and subjected to a limited review of their security posture. These visits were conducted by teams consisting of an FAA special agent and several law enforcement officers provided by other Federal agencies.

The CY-1986 assessment program has been initiated. This program consists of a minimum of one comprehensive and two supplemental assessments for each of the 180 airports. These assessments are being conducted by personnel from the various FAA regions. Our records indicate that during the first quarter of CY-86, over 80 foreign airports were assessed.

SENATOR ANDREWS: How effective is the current Federal Air Marshal Program?

ANSWER: The current Federal Air Marshal Program is working extremely well. Our highly trained, professional cadre has reported a generally enthusiastic response from airline crews and host governments alike. FAA believes that the public awareness that the United States has Federal Air Marshals flying on overseas flights is extremely beneficial, not only to the airline industry but to the traveling public as well.

SENATOR ANDREWS: How many are currently trained and available for duty? What is the "full cadre" of Air Marshals, which the Department claimed in February 1986, was practically hired and trained? How many agents will be hired for international posts?

ANSWER: It serves no useful purpose to discuss the number of Federal Air Marshals currently on board. A proposed organizational structure for the FAA's Office of Civil Aviation Security has been drafted. The draft document is being coordinated simultaneously with the offices/services within the FAA.

SENATOR ANDREWS: Provide for the record the total domestic and international security travel for FY 1985-1987.

ANSWER: FY-1985 - $1,273,000; FY-1986 - $3,827,000; FY-1987 - $3,357,000.

AVIATION STANDARDS - SAFETY

SENATOR ANDREWS: The contractual support for Aviation Standards - Safety is proposed to be increased 50 percent. Why is such an increase proposed? How many of the topics to be covered (OPS-90) are the subject of in-house FAA review?

ANSWER: The Office of Aviation Safety is a relatively new organization in its present structure. Contractual support is necessary because the scope of the programs are still expanding to achieve a full level of overview perspective. This office is comprised of a small number of employees with responsibilities for investigating and monitoring major safety areas. Some of the major programs that require contractual support are:

1. Quality Assurance Program for Accident Investigation - Industry correspondence and a Flight Safety Foundation special investigation activities. The Accident Investigation Division has initiated a plan to develop a Quality Assurance Program designed to aid in improving FAA's investigative actions and to assure that the FAA's responsibilities have been discharged.

2. National Airspace Information Monitoring System - This system is intended to provide the capability to monitor trends in the safety of the National Airspace System using accurate and timely data on near midair collisions, pilot deviations, and operational errors/deviations.

3. National Airspace System Safety Plan - The FAA's National Airspace System Plan for facilities, equipment, and associated development has been audited by the Systems Engineering and Integration contractor. As a result of that audit, ASF has been assigned the responsibility for validating that all safety hazards/risks identified within the NAS Plan have been satisfactorily reconciled, resolved, or corrected.

None of the topics to be covered (OPS-90) are the subject of subject of in-house review.

OPERATIONS: AIRPORTS ADMINISTRATION

SENATOR ANDREWS: The proposed budget provides for a 21% decrease (OPS-95) in airport improvement grants to be issued in FY 1987. What was FAA's FY 1987 request to OST, and to the OMB for the grants program, as well as for the Operations Administration?

ANSWER: In FY 1987 we requested $1,017.2 million of the OST and $900.0 million of the OMB for Airport Improvement Grants, together with $30.9 million of the OST and $28.0 million of the OMB for the Airports Operations Administration.

AIRPORT GRANTS

SENATOR ANDREWS: Explain the impact of a 19% reduction in the airport grant program. Since this is a trust fund program, and vital to aviation safety, why are airport grants being so constrained?

ANSWER: Since the trust fund is part of the unified budget, airport grants, along with other transportation programs, are being reduced in an effort to resolve the critical deficit situation. The reduction in grants will require deferral of some low priority items such as fences or roads at high activity airports and will also require deferral of any work at very small low activity locations. High priority work on runways, taxiways and aprons at active airports will still be accomplished.

SENATOR ANDREWS: How do FAA's current request and budget projections compare to your August 1985 report on airport requirements? (Which calls for $18.5 billion over 10 years to increase capacity for projected volume).

ANSWER: The $712.5 million airport grant level falls short of the annualized cost of the 10-year plan but this type of situation has been the case throughout the history of the grant program. Over the years, the grant levels have always been directed to the highest priority work identified in the 10-year plan to assure that critical development needs were satisfied.

SENATOR ANDREWS: Last year's budget overview mentioned a drop in airport grants in FY 1988, and beyond. Why was this timetable accelerated?

ANSWER: The fiscal year 1987 level is not intended as an acceleration of the budget overview projections. The 1987 level is considered necessary as part of the Administration's desire to reduce total Federal funding. The lower levels, in the budget overview, for fiscal year 1988 and beyond, begin after the expiration of the current grant program authorization. The projections were made with the idea that changes might be made to the present method of fund distribution. Actual levels, of course, will depend on the form of new grants legislation to be approved by the Congress.

SENATOR ANDREWS: What major legislative changes are being proposed in tandem with the program level reductions?

ANSWER: Various legislative changes are still under discussion in the Department. One change that could result in lower levels would "defederalize" several of the top airports, those with the ability to afford development without Federal assistance. Decisions on defederalization or on other formulas for fund distribution have not yet been made.

SENATOR ANDREWS: What reductions will be felt by airports in North Dakota?

ANSWER: As of now, we expect no serious impacts at North Dakota's major airports. The preliminary FY 1987 program for North Dakota will not be formulated until later this summer and it will undergo continuous revision throughout the early part of the fiscal year, depending on various circumstances beyond our control such as sponsors' abilities to provide required local funding and on the outcome of any required environmental reviews. In general, although the major airport sponsors will receive reduced formula entitlement funds, these funds could be supplemented with discretionary assistance where necessary to assure critical needs are met. We expect, however, that we will not be able to afford to provide assistance for very low activity locations.

HUMAN RESOURCE

SENATOR ANDREWS: The FY 1986 adjustments, after sequestration reflect a $181.5 million increase for Human Resource Management, offset by elimination of the Centralized Training category, and reductions in Direction, Staff, and Supporting Services. Please explain the rationale for this shift.

ANSWER: This adjustment reflects FAA's increased emphasis on Human Relations improvement activities and the agency's commitment to having Human Resource Management (HRM) as one total program. By creating the HRM activity, we have eliminated the fragmentation of having HRM programs in several different budget activities and subactivities. The Human Resource Management budget activity has three subactivities: Centralized Training; Labor, Personnel, and Human Relations; and Planning, Direction and Evaluation.

OPERATIONS SHORTFALL

SENATOR ANDREWS: To help meet FAA's FY 1986 Operations shortfall, certain activities will be funded from other accounts, such as penalty mail. Please list those items historically funded in Operations, and new funding source, including amount to be obligated in FY 1986.

ANSWER: The following are items historically funded in Operations but which will be funded in the Facilities and Equipment appropriation:

Postage..................................	$ 8 Million
Nonrecurring costs for lease/purchase of communications equipment............	$12 Million

AIRWAY SCIENCE

SENATOR ANDREWS: Provide a summary of all airway science grants made since program inception.

ANSWER: The information follows:

Fiscal Year	Institution	Grant Status	Appropriation	Obligated	Purpose
82	University of North Dakota *	Awarded	$4,000,000	$4,000,000	facilities/ equipment
83	University of North Dakota*	Awarded	2,750,000	2,750,000	facilities/ equipment
83	Hampton University	Awarded	2,250,000	2,250,000	facilities/ equipment
85	University of North Dakota*	Awarded	1,000,000	1,000,000	equipment
85	Florida Memorial College*	Awarded	1,000,000	1,000,000	facilities
85	Tennessee State University	Final grant plan to be submitted by institution	800,000	-	facilities/ equipment
85	Embry-Riddle Aeronautical University	Final grant plan to be submitted by institution	500,000	-	facilities
85	National University	Final grant plan to be submitted by institution	500,000	-	facilities/ equipment
85	Middle Tennessee State University	Final grant plan to be submitted by institution	871,044	-	facilities/ equipment
85	Purdue University	Conditional upon recognition of AWS curriculum	128,956	-	equipment
85/86	Texas Southern University	Conditional upon recognition of AWS curriculum/final grant plan to be submitted by institution	200,000 31,168**	-	facilities/ equipment
86	University of North Dakota*	Awarded	3,828,000**	3,828,000	facilities/ equipment
86	Delta State University*	Grant proposal to be submitted by institution	2,201,100**	-	facilities/ equipment
86	Florida Memorial College *	Grant proposal to be submitted by institution	2,871,000**	-	facilites/ equipment
86	California State University	Conditional upon recognition of AWS curriculum/final grant plan to be submitted by institution	48,082**	-	equipment
86	Elizabeth City State University	Final grant plan to be submitted by institution	144,050**	-	equipment
86	Dowling College	Final grant plan to be submitted by institution	223,300**	-	facilities/ equipment
86	Ohio State University	Final grant plan to be submitted by institution	223,300**	-	Facilities/ equipment

*Congressionally designated awards

**Award includes 4.3% GRH reduction

SENATOR ANDREWS: How many staff years are currently dedicated to management of this program? Is the necessary support for this program included in the $205 million request for FY-1987 for Human Resource Management? If not, what amount would be necessary to provide adequate program support?

ANSWER: Two staff years are currently dedicated to the management of the Airway Science Program. These two positions are included in the budget request for FY-1987 for Human Resource Management. However, as the program continues to grow, staff year requirements are increasing. An additional three positions would be required in FY-1988 at a cost of $120,000 to adequately manage both the curriculum and grant programs. This is based on FY-85, FY-86, and FY-87 anticipated appropriation levels.

FACILITIES AND EQUIPMENT

SENATOR ANDREWS: When will an FY 1986 reprogramming be submitted for post Gramm-Rudman-Hollings Facilities and Equipment (F&E) funding?

ANSWER: The reprogramming proposals are being finalized and we expect within a matter of a few days the proposals will be sent to the Secretary for approval and further transmittal to the Committees.

SENATOR ANDREWS: Why are total positions in FY 1987 increased 200, or 20 percent for Facilities and Equipment?

ANSWER: The 200 position increase in Facilities and Equipment (F&E) is a transfer of Research, Engineering, and Development positions at the Technical Center (ACT) that have been funded in recent years from the F&E Appropriation

The Technical Center (ACT) is evolving into an organization with technical capabilities to support both Research, Engineering and Development (R, E&D) and Facilities and Equipment (F&E) activities. This is commensurate with the overall strategy which has resulted in the merger of the Engineering and Development and the Airway Facilities organizations under one Associate Administrator for Development and Logistics. The philosophy includes a concept of developing a cadre of experts who will be responsible for a program from initial development through field deployment, thereby eliminating the problem of transitioning to a new staff as a project moves from development into field implementation.

At the present time, some personnel in R, E&D appropriation positions are being assigned F&E project work at the Technical Center. In both FY 1985 and FY 1986, the positions remain in the R, E&D appropriation with associated FTEs being funded from the F&E appropriation. However, in FY 1987, we are proposing a transfer of 200 positions from R, E&D to F&E since the total workload will be in the F&E activity for a few years beyond FY 1987.

Facilities and Equipment work at the ACT includes preparation of equipment and test specifications, evaluation of contractor proposals, monitoring of contracts, participation in system tests, establishment of test beds and support facilities, and spectrum analysis work. In later years these positions will be used to assist in installing and commissioning the large increase in F&E equipment that will be delivered to the field.

SENATOR ANDREWS: For which overlapping Research/Facilities and Equipment projects are positions being shifted? Why aren't the workyears shifted to F&E also? In what account is funding available for these positions compensation and benefits?

ANSWER: Major projects which have shifted or are shifting from Research to Facilities and Equipment include NEXRAD, Host Computer Replacement, Advanced Automation System, Central Weather Processor, Flight Service Station Modernization and Microwave Landing System. The workyears for these positions are being shifted from Research to Facilities and Equipment. Funding for compensation and benefits for the 200 positions will be funded from the F&E Appropriation.

SENATOR ANDREWS: Page 15 of the F&E justification states that a 148 workyears reduction is associated in FY 1987 with "Management Improvements" now being evaluated. Please elaborate.

ANSWER: The FAA is exploring different methods of reducing the number of FTEs in the overall FY 1987 FAA budget such as improved work methods, automation, contracting out, etc. When the evaluations are completed and FTE savings are determined, they will be implemented in the appropriate portion of the budget including Facilities and Equipment.

FULL FUNDING

SENATOR ANDREWS: Which Facilities and Equipment projects are to be funded, starting in FY 1987, on an incremental basis rather than full funded? On what basis were these selected? What would be the FY 1987 request for each if they were full funded? How much more will each projects total cost be if funded incrementally?

ANSWER: The following Facilities and Equipment projects were taken off full funding in the FY 1987 budget request:

	Amounts in $ Millions		
	Requested in Budget	Future Budget	Total Required
Radar Microwave Link System Replacement/Expansion/Network	$18.0	$15.7	$33.7
Airport Surveillance Radar (ASR-4/5/6) Replacement	87.9	12.7	100.6
Terminal Doppler Weather Radar (Terminal NEXRAD)	65.5	22.5	88.0

Taking these programs off full funding should not cost more. The funds that are not requested are for such requirements as site preparation, construction, installation, provisioning, flight check and commissioning which would not have been obligated in FY 1987. The costs of these requirements should be the same whether we request them in FY 1987 or in the year that they will be obligated.

These projects were selected because they had a significant amount of dollars for the site preparations, installation, provisioning, etc., requirements. By not full funding these few projects, other projects were included in the budget, enabling major elements of the NAS Plan to remain on schedule through 1988.

HOST COMPUTER

SENATOR ANDREWS: The budget requests $18.3 million for the Host Computer in FY 1987. Installation and checkout were also funded by the FY 1986 appropriation. How will the additional funds be used?

ANSWER: The FY 1987 budget request provides resources for continuing the installation and checkout of the Host Computers, engineering support, and the first year funding of contractor maintenance.

SENATOR ANDREWS: Why does the FY 1987 request exceed last year's future requirement estimate, when obligations for this project have been declining?

ANSWER: Last year's future year requirement estimate did not include the estimated cost of $5.2 million for contractor maintenance for the first option year of the Host Acquisition contract. Additional costs of engineering support for operational testing and implementation of the systems have added another $5.1 million.

SENATOR ANDREWS: Since FY 1985 and FY 1986 Host requirements are well under original estimates, how will the "excess" appropriations be redistributed?

ANSWER: Host requirements during FY 1985 and FY 1986 are $72.2 million less than originally estimated as a result of the Host acquisition contract being awarded for an amount less than estimated. The $72.2 million is contained in a zero-sum supplemental budget request transferring Host Computer System (HCS) Facilities and Equipment Appropriation savings to the Research, Engineering and Development Appropriation Advanced Automation System (AAS) Program to fund changes in the AAS Design Competition Phase contracts.

SENATOR ANDREWS: Will the Host be in place in FY 1987? If not, why? What is the current installation timetable? Shouldn't the requested $18.3 million be distributed over the next several fiscal years to coincide better with actual site installation?

ANSWER: The schedule shown below is our planned delivery and operational readiness date for each Host site which indicates that all sites will be operational during calendar year 1987. However, rehosting of the latest version of the NAS software together with the update of the Government documentation have taken more time than anticipated. Consequently, delivery to the ARTCC's has been delayed. We are currently assessing the extent of this schedule delay, but believe it to be at least 3 months.

As the implementation schedule shows, most of the HCS implementation efforts are planned to be completed during FY 1987 and are not spread over the next several years. When requirements were formulated, we believed that FY 1988 requirements were minimal and funding to complete the project should be provided in FY 1987.

ARTCC HOST COMPUTER SYSTEM SCHEDULE
(based on July 26, 1985 contract)

	ARTCC	DELIVERY	OPERATIONAL
1.	Seattle	5/23/86	11/26/86
2.	Houston	7/25/86	1/26/87
3.	Denver	9/05/86	3/11/87
4.	Boston	9/26/86	3/26/87
5.	Leesburg	10/10/86	4/11/87
6.	Chicago	10/24/86	4/26/87
7.	Oakland	11/21/86	5/26/87
8.	Albuquerque	12/05/86	6/11/87
9.	Memphis	12/26/86	6/26/87

10.	Cleveland	1/09/87	7/11/87
11.	Atlanta	1/23/87	7/26/87
12.	Miami	2/06/87	8/11/87
13.	Los Angeles	2/20/87	8/26/87
14.	New York	3/06/87	9/11/87
15.	Kansas City	3/20/87	9/26/87
16.	Minneapolis	4/10/87	10/11/87
17.	Indianapolis	4/24/87	10/26/87
18.	Jacksonville	5/08/87	11/11/87
19.	Fort Worth	5/22/87	11/26/87
20.	Salt Lake City	6/05/87	12/11/87

SENATOR ANDREWS: When Host implementation commences; will enough personnel be in place, within existing FAA resources, to ensure that installation proceeds smoothly? If not, what arrangements are being made?

ANSWER: The Host contract calls for IBM to deliver, install, and pass acceptance tests at each operational site. Sufficient FAA resources exist to monitor and support this activity. The FAA has supplemented its hardware and software maintenance staff through the Host comtract with IBM.

WEATHER RADARS--NEXRAD

SENATOR ANDREWS: The budget requests $31.9 million for first-year procurement of NEXRAD weather radars at ten locations. Does this procurement request signify the end of the NEXRAD developmental process among the participating federal agencies?

ANSWER: The start of NEXRAD production signifies the end of system hardware development. However, the software will continue to be enhanced as more is learned about the Doppler characteristics of weather phenomena. The NEXRAD was designed so that all weather products (such as hail, tornadoes, and turbulence) are generated in a computer subsystem which can be easily reprogrammed and expanded. As more experience is gained with Doppler weather radars, we would expect that some of the existing meteorological algorithms would be enhanced and additional weather products added. For example, the FAA is developing an icing detection algorithm, and if this development is successful, this product will be added to NEXRAD in future years.

Each individual agency is responsible for development of weather products of interest to that agency.

SENATOR ANDREWS: At which ten locations will systems be installed? Using this funding, will installation decisions be based exclusively on aviation (i.e., non-Air Force and National Weather Service) needs? If not, what portion of the $31.9 million applies exclusively to FAA?

ANSWER: The ten NEXRAD sites funded by FAA in FY 1987 are:

1. Oklahoma City, OK
2. Melbourne, FL (Kennedy Space Center)
3. Washington, DC
4. Kansas City, MO (Training site)
5. St. Louis, MO
6. Denver, CO
7. Kansas City, MO

8. Wichita, KS
9. Topeka, KS
10. Tulsa, OK

These sites were selected by the NEXRAD Joint System Program Office after consultation with the FAA, National Weather Service, and Air Force.

The requested funding includes the FAA share of the NEXRAD procurement, FAA support, and FAA facility interfaces with NEXRAD.

SENATOR ANDREWS: What is the relationship between this request and the $65.5 million requested for terminal Doppler system acquisition?

ANSWER: The NEXRAD and terminal Doppler weather radar (TDWR) funding is part of the same procurement contract for NEXRAD units although the radars will be used for different purposes. The standard NEXRAD units will be operated by the National Weather Service (NWS) and the data will be sent to all three sponsoring agencies; FAA, NWS, and the Air Force. The TDWR units will be operated by the FAA for airport protection.

NOAA TRUST FUND SUPPORT OF NEXRAD

SENATOR ANDREWS: Why does the budget propose that the Aviation Trust Fund cover the National Oceanic and Atmospheric Administration portion of NEXRAD?

ANSWER: A Department of Commerce cost-benefit study showed that NEXRAD will be very useful in providing severe weather information to aviation users which will increase aviation safety, reduce weather related delays, and save on fuel comsumption. Because of these benefits for aviation users, the civilian share of NEXRAD cost is proposed from the Trust Fund.

SENATOR ANDREWS: If this funding source is not provided for NOAA, what programmatic delays would occur?

ANSWER: If the NOAA budget were amended to provide alternate funding for NEXRAD in a timely fashion, there would be no programmatic delays. If, on the other hand, no alternate funding is provided for the NOAA budget, the NEXRAD Program will come to a standstill.

TERMINAL DOPPLER RADAR

SENATOR ANDREWS: The budget requests $65.5 million to procure 15 terminal Doppler radar systems. Yet GAO has testified that this funding commitment is premature because necessary research is still incomplete. Please explain how this procurement can go forward in FY 1987 given each the remaining problems of: Ground clutter, data update rate, siting, wind shear detection capabilities, and controller displays?

ANSWER: We disagree with GAO assessment that procurement of the initial 15 terminal Doppler weather radars is premature especially considering the need for this system as soon as possible to address a major aviation hazard. Each of the issues raised is discussed below.

Ground Clutter: The 15 NEXRAD systems which will be adopted for terminal use all include state-of-the-art clutter filters which meet FAA requirements. This ground clutter suppression capability has been shown to be adequate for microburst and wind shear detection using the Doppler weather radar support facility.

Data Update Rate: The NEXRAD system will complete one antenna revolution every 20-30 seconds. Because the National Weather Service, Air Force, and FAA en route functions require coverage of all airspace from near the ground to 70,000 feet altitude; the NEXRAD will utilize 14 antenna revolutions at different elevation tilts to obtain this coverage. These 14 different antenna revolutions take 5-6 minutes.

For wind shear detection, which is primarily a low altitude phenomena, the number of elevation tilts can be greatly reduced and an update rate of 1-2 minutes can be achieved.

The NEXRAD scanning strategy can be changed simply by inserting a software program in the antenna control computer.

Siting: Optimum siting for terminal Doppler weather radar applications is being extensively addressed through use of the FAA's Doppler weather radar support facility (at Memphis in 1984/1985 and Huntsville, Alabama, in 1986). Primary considerations for siting are measurement of wind shears on airport approach and departure paths and detection of approaching wind shear hazards. Depending on airport configuration and terrain features, the optimum siting may be on or off the airport proper (but in any case relatively close to the airport) and will need to be determined on a site-by-site basis.

Wind Shear Detection: The capability of a Doppler weather radar with NEXRAD like parameters to detect microbursts and wind shear has been proven using the FAA weather radar support facility in Memphis in 1985 and National Science Foundation radars in Denver in 1982 and 1984. Both wet and dry microbursts were reliably detected using these radars.

Controller Displays: The technology exists, as part of NEXRAD, to display weather products on a separate color display. The FAA is also starting the effort to display hazardous weather data to controllers as background information on their air traffic displays. This effort will be completed prior to first radar installation in 1989.

SENATOR ANDREWS: According to the Department's February testimony, terminal Doppler testing will still be conducted in 1987. When will humid and dry climate algorithms be provided to a contractor?

ANSWER: A microburst algorithm applicable to both humid and dry climates is presently being finalized by Lincoln Laboratory and will be tested in the FAA Doppler weather radar support facility in Huntsville this summer. The algorithms will be available to the contractor prior to contract award in January 1987. This algorithm will detect the microbursts outflow near the surface. Work is continuing to enhance this algorithm to detect the formation of microbursts aloft before they hit the ground and become hazardous.

SENATOR ANDREWS: Why should 15 interim systems be procured for 1989-1991 installment, rather than conclude ongoing studies to validate hardware and software requirements?

ANSWER: The 15 interim systems will provide early wind shear detection at major airports representing about 40% of the passenger wind shear exposure. In parallel with this effort, work is proceeding on the specification and procurement of the follow-on

Terminal Doppler Weather Radar (TDWR). When the TDWR is delivered, the interim systems will be reconfigured as standard NEXRAD units and leap-frogged to locations in Alaska, Hawaii, and the Caribbean that were previously designated for NEXRAD coverage.

SENATOR ANDREWS: Can you provide assurance that these 15 interim terminal Dopplers will detect windshears, and provide warnings on shears in approach and departure paths?

ANSWER: Yes. The FAA Doppler weather radar support facility has virtually the same radar parameters as the interim terminal Doppler radars and this system detected 92 microbursts in the Memphis area from April to November 1985. Analysis of ground wind sensor data is not complete for that period, however, to date we have not found a case where the radar missed a detection. In addition, National Science Foundation radars with somewhat less capability detected numerous microbursts in the Denver area in 1982 and 1984.

The algorithms to provide automatic warning of wind shear conditions will be thoroughly validated prior to the first radar installation.

SENATOR ANDREWS: To what extent does FAA feel it needs to seek terminal Doppler procurement funding as assurance to the flying public?

ANSWER: Terminal Doppler weather radar is a safety item. Recent accidents caused by wind shear have caused a great deal of public concern. This concern has been expressed in numerous letters to Congress, the President, and the FAA. We feel that deployment of terminal Doppler weather radars at major airports will improve aviation safety and will therefore result in more confidence by the public in the safety of aviation.

SENATOR ANDREWS: Have you found operational solutions to all of these above technical problems and, if not, what assurance do you have that the 15 modified NEXRAD systems you want to buy in fiscal year 1987 will actually work in an operational environment?

ANSWER: The operational solutions to the technical problems are discussed below.

Ground Clutter: The 15 NEXRAD systems which will be adopted for terminal use all include state-of-the-art clutter filters which meet FAA requirements. This ground clutter suppression capability has been shown to be adequate for microburst and wind shear detection using the Doppler weather radar support facility.

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Controlling Display: The technology exists, as part of NEXRAD, to display weather products in a separate color display. The FAA is also starting the effort to display hazardous weather data to controllers as background information on their air traffic displays. This effort will be completed prior to first radar installation in 1989.

SENATOR ANDREWS: Will terminal Doppler radars be operationally tested before a production decision is made? If not, why not?

ANSWER: Operational testing of meteorological products will be conducted at a field site using the Doppler weather radar support facility which closely approximates the production terminal Doppler weather radar. In addition, the first terminal Doppler system will be tested in an operational environment prior to commissioning the remaining units.

SENATOR ANDREWS: What other training improvements or technological developments are underway to improve wind shear detection and survivability?

ANSWER: On November 15, 1985, the FAA awarded a contract to the Boeing Commercial Airplane Company to develop wind shear training aids. Boeing subcontracted with Douglas, Lockhead, United Airlines and Aviation Weather Associates. The contract will last for fifteen months. The products will be in a form to be used by airline training organizations to provide wind shear avoidance training to their flight crews, as well as standard operating techniques for the crews to have at their disposal in case of an inadvertent encounter with hazardous wind shear. In order to ensure that the contract team is responsive to the industry's needs, the contract team has five reviews planned with the primary industry users, as well as three general industry reviews. The completion of this program, scheduled for February 1987, will determine if further training improvements need to be addressed. The FAA has established an Airborne Wind Shear Detection and Avoidance program to develop the systems requirements for forward-looking wind shear sensors for aircraft. This is a joint program with the National Aeronautics and Space Administration that establishes the technology base for the industry to use to develop and manufacture forward-looking wind shear sensors. This program compliments the work that has already been done by the industry in the field of airborne wind shear detection. To date, two companies have obtained Supplemental Type Certificates for wind shear systems on aircraft. Although these systems do not detect wind shear ahead of the aircraft, they have been shown to provide an improvement to wind shear detection when the aircraft enters a wind shear. The intent of the Airborne Wind Shear Detection and Avoidance program is to provide a focused program that makes use of the multi-disciplinary national resources of the FAA and NASA to further the work that has been done by industry to improve wind shear detection.

The Wind Shear Training Aids program and the Airborne Wind Shear Detection and Avoidance program, in conjunction with ground sensors, terminal information systems and hazard characterization comprise the unique parts of the "Integrated FAA Wind Shear Program Plan" that is now out for public review. All of these aspects permit the FAA to provide incremental improvements to the aviation community in the shortest amount of time.

SENATOR ANDREWS: Your modified NEXRAD is an S-band radar while your optimum terminal Doppler is a C-band radar. What operational problems does each present and how are these problems being addressed?

ANSWER: Both S-band and C-band radars are viable candidates for wind shear detection with only minor differences in capability. The Joint Airport Weather Studies (JAWS) effort utilized National Science Foundation radars at both frequencies. Numerous microbursts were detected by both S-band and C-band radars. The major problem with the use of S-band is frequency congestion. All of the FAA airport air traffic control radars and all NEXRAD's are at S-band. It would be difficult to assign permanent frequency allocations at all terminal Doppler weather radar (TDWR) locations although temporary allocations can be made to accommodate a limited number of interim systems. This frequency congestion problem is a major factor in selecting C-band for TDWR.

The major problem with the use of C-band is that C-band radars have only one half the unambiguous velocity range of S-band radars. Additional processing capability must be added to a C-band radar to compensate for this reduced velocity range so that higher velocity wind components can be readily measured. Techniques addressing the C-band reduced velocity range are being developed through the use of the FAA's Doppler weather radar support facility.

SIMULATORS

SENATOR ANDREWS: When will FAA's standards and guidelines be formulated to expand the use of less sophisticated and expensive flight simulators?

ANSWER: Notice of availability of an advisory circular entitled "Advanced Training Devices" was published in the Federal Register for public comment. The comment period closes May 23. Following our review and resolution of the comments, we intend to issue the advisory circular. By midsummer, we expect Part 135 operators to be able to incorporate sophisticated, but relatively inexpensive training devices into their training programs.

SENATOR ANDREWS: When will the Federal Aviation Regulations be revised to permit expanded simulator use in General Aviation Training?

ANSWER: The FAA has recently conducted a review of simulator use in general aviation flight training. As a result of this review, the FAA initiated a regulatory project to amend Part 61 of the Federal Aviation Regulations to objectively match maneuver and procedures requirements with a category of simulation devices. This amendment should extend the maximum credit to simulation devices that objective requirements will permit. The FAA hopes to publish this proposed rule in 1987.

SENATOR ANDREWS: Will the FAA amend its regulations to require windshear training? If not, please explain.

ANSWER: The FAA is developing a notice of proposed rulemaking which would establish particular windshear ground and flight training requirements for Parts 121 and 135 certificate holders.

3 LEVEL WEATHER RADARS

SENATOR ANDREWS: Why are 3 level weather radars being installed at 154 locations rather than including this enhancement in advance system controller displays?

ANSWER: We are not installing new weather radars. Rather, we are modifying existing radars (ARSR-3) and common digitizer equipment (CD-2) to enhance FAA's capability to detect hazardous weather, and to display on the en route controller's scope three levels of weather intensity instead of the present two levels. This single year program will provide these improved capabilities to the controller 2-3 years earlier than waiting until the new advanced automation system sector suites are installed.

LONG RANGE RADAR

SENATOR ANDREWS: Last year's justification showed FY 1985 and 1986 appropriations for long-range radars at $31.2 and $48.2 million, respectively. Those levels have been scaled back considerably (P. 18, F&E). Explain this reduction and total locations to be covered with the $3.3 million in FY 1986 and $5 million in FY 1987 request.

ANSWER: The FY 1985 appropriation was not scaled back. Of the $31.2 million provided in the appropriation, $3.0 million was for the 3-D Radar Program (ARSR-4) and $28.1 million was for modification of existing long range radars. Reductions to the Long Range Radar program in FY 1986 were made in order to adjust to reduced budget levels. The $3.3 million in FY 1986 and the $5 million in FY 1987 are to maintain program support and preproduction work necessary to award the new ARSR-4 contract in early 1988.

ADVANCED AUTOMATION SYSTEM

SENATOR ANDREWS: The budget requests additional funding for the Advanced Automation System, the largest single NAS Plan program, as follows:

Facilities and Equipment:	$72.1 million
Research, Engineering and Development:	21.5 million

Why are certain portions proposed to be funded from the Facilities and Equipment account?

ANSWER: By early FY 1987, most of the Research, Engineering and Development efforts for the AAS will have been completed. Additional development work will involve development of production specifications for computer hardware and software, sector suites, and local communications networks. The major cost during this time period will be construction, demonstrations, and testing of preproduction sector suites.

SENATOR ANDREWS: What is the status this fiscal year of design and development activities by the two competing contractors (Hughes and IBM)?

ANSWER: The two competing contractors are satisfactorily completing the major milestones in accordance with the contract. In January 1986, the System Design Review was successfully conducted at both contractors' plants. More recently, the Software Specification Review was successfully conducted in April by both Hughes and IBM.

SENATOR ANDREWS: When will AAS Preliminary Design Review take place?

ANSWER: The Preliminary Design Review (PDR) is scheduled for July 1986. The Data Entry and Display Devices demonstration is also scheduled for July. We are communicating with both contractors to determine if PDR should be held at a different time more convenient to them and the Government.

SENATOR ANDREWS: When in FY 1987 will Critical Design Review be funded?

ANSWER: The Critical Design Review is scheduled for May 1987, and ~~it is~~ our intention to hold firmly to that date.

SENATOR ANDREWS: FY 1987 is the critical year for this project inasmuch as final design reviews will be concluded and an acquisition contract will be issued. GAO however, continues to raise serious questions about FAA's acquisition strategy. The most serious issue is the lack of a development and test stage before letting the procurement contract. Why doesn't FAA adjust its acquisition strategy to mitigate the risks GAO has identified? Don't you agree with GAO that the Host Program will allow sufficient time (2 years or so) for this extra step?

ANSWER: The FAA believes that the AAS acquisition strategy appropriately balances risks with costs and benefits. At the end of the Design Competition Phase, the Sector Suite and Tower consoles (which represents an investment three times the combined investment of software and commercial computer hardware) will have undergone sufficient testing to warrant proceeding with console production. The console test results, complemented by the AAS design documentation and support analysis, will provide FAA with adequate information to select an AAS production contractor. The GAO extra step would extend the AAS DCP by 2 years requiring additional funding of hundreds of millions of dollars and results in over $2 billion in lost benefits with no appreciable reduction in risk.

SENATOR ANDREWS: GAO also continues to question the cost/benefit of theAAS/ Their analysis shows that since 1982, the AAS cost/benefit of 1:4 has slipped to 1:2 in a 1985 MITRE study. GAO further estimates that AAS slippage and fuel cost reductions bring the cost/benefit down to almost zero. How do you respond?

ANSWER: The FY 1985 MITRE study has been approved by the FAA. That study used post air traffic control strike data when controllers were working understaffed. The study did not include safety improvements and socio-economic benefits. A very conservative approach was used. Wherever possible, lower estimates of benefits and higher costs were included in the analysis. The FAA does not accept GAO's conclusion that the benefit/cost ratio is brought almost to zero by recent events. We feel that the new independent study mandated by the Congress will address adequately all the questions that GAO has raised.

SENATOR ANDREWS: We understand the costs for the Design Competition Phase (DCP) exceed the available appropriations. By how much this fiscal year? How much in total? How much in transfer authority will the Administration request to cover this shortfall? What ongoing programs will be affected by the transfer? How would such a transfer affect the FY 1987 requests, both F&E and research?

ANSWER: The amounts authorized to date and amounts contained in budgets and out-year estimates will provide funding for the original contract cost as well as the Government estimate of design competition phase contract changes. These changes were required to assure an operationally acceptable system and provide a 6-month extension to the contracts to allow for a realistic schedule for development associated with the changes.

Seventy-two million dollars in planned funding is contained in a zero-sum supplemental request that was submitted and is required in FY 1986 to continue the DCP contracts. This zero-sum supplemental requests the transfer of Host Computer System savings in the Facilities and Equipment to the Advanced Automation System in the Research, Engineering and Development Appropriation.

Since the source of funding for this transfer is savings from the award of a Host acquisition contract at a price that is less than estimated, there is no impact as a result of the transfer on other ongoing programs.

The total additional need is $78 million to fund the completion of the DCP. The AAS DCP contractors have submitted proposals for the contract changes that are approximately $32.9 million in excess of the Government estimates. In addition, the current estimate to complete the contracts indicates a potential cost growth of some $34.1 million. Another $11 million is required to restore authorized levels within the Research, Engineering and Development Appropriation. The FAA and the Department are examining ways to fund and/or contain costs of the AAS design competition contracts that will have a minimal impact on the AAS DCP and other ongoing programs.

FACILITIES & EQUIPMENT - TRAFFIC MANAGEMENT

SENATOR ANDREWS: The Traffic Management System costs have almost doubled from last year's budget. Explain the $27.8 million requirement for a new central flow control computer.

ANSWER: It was determined that a new central flow control computer is required in the 1987 time-frame to handle the large volume of traffic messages that must be processed to generate flow advisories and restrictions. Approximately $19.4 million of the $27.8 million is for the new central flow control computer and related requirements. The remainder is for color weather radar displays, metering list displays, and new software.

SENATOR ANDREWS: Why does the justification (p. 27, F&E) state that "TMS hardware & software ... are inadequate to effectively manage ... flow," when this project was made a priority after the 1984 delay overview hearing?

ANSWER: To upgrade the Traffic Management System as rapidly as possible, hardware that was already owned by the Federal Aviation Administration was upgraded and the software was rehosted to that hardware within 1 year after the project was undertaken. A sizing study has shown that additional capacity is required to enable new enhancements to be incorporated into the system. The FY 87 budget includes funds to procure equipment needed to expand the capacity of the system.

SENATOR ANDREWS: Last October, the Committee allowed reprogramming of the $3.93 million of FY 85 funds to upgrade the TMS. What is the status of those funds? Have they been obligated?

ANSWER: Of the $3.93 million, $2.7 million has been obligated to a contractor for hardware procurement and software development.

The obligation of the remaining $1.23 million is in process of being awarded for software development.

NEW YORK TRACON

SENATOR ANDREWS: Last year the Committee provided the requested $31.4 million for necessary improvements to the New York Terminal Radar Approach Control Facility. This year an additional $15 million is requested. Why is there a 50% cost overrun?

ANSWER: Additional funding has been requested as the result of cost increases relating to (1) the contractor absorbing costs associated with no government indemnification; (2) higher contractor labor rates associated with the increased quality and quantity of personnel to meet an extremely time compressed and critical schedule; and (3) the loss of competition in the procurement process.

SENATOR ANDREWS: Is this additional investment necessary given the eventual replacement by the Advanced Automation System? What is the revised cost/benefit given the new request?

ANSWER: The current New York Terminal Radar Approach Control (TRACON) automation system is at maximum hardware design limit and software enhancements can only satisfy growing system capacity requirements up to June 1987. The Sustain New York TRACON project will provide an enhanced terminal automation system in two phases to minimize technical and schedule risk. The first phase will satisfy capacity requirements from June 1987 through December 1988. The second phase will be accomplished through this additional funding request and will satisfy capacity requirements from December 1988 through 1998.

Because the New York TRACON automation system is not scheduled for replacement by the Advanced Automation System (AAS) until 1998, system capacity requirements can only be satisfied to that point by the approval of this new request and implementation of phase two of the sustain project. This continuation of terminal air traffic control automation service represents the benefit of the new request.

REMOTE MAINTENANCE MONITORING

SENATOR ANDREWS: Does the reduced budget request ($28.5 million) for the remote maintenance monitoring signal a slowdown in this effort? Do personnel shortages impact on this level of activity?

ANSWER: The reduced budget request is a result of an examination of the cost/benefit ratio of the facilities to be retrofitted with remote maintenance monitoring capabilities. Retrofit priorities have been established based on early implementation of high payback facilities being accomplished first and lesser cost-effective facilities being deferred to later budget years. The resulting realignment of priorities allowed the deferral of $28.5 million from FY 1987 to a later budget year with no slowdown in the Program. The impact of an existing shortage of field personnel can be minimized by implementing high payback facilities first since they result in a greater offset of personnel.

REPLACEMENTS

SENATOR ANDREWS: Do all four facilities for which terminal facility replacements are budgeted in FY 1987 meet FAA's cost/benefit criteria. If not please elaborate.

ANSWER: All four locations meet our cost/benefit criteria.

ILS

SENATOR ANDREWS: With the delays in the MLS Program, what provision is being made for interim requirements for precision approaches?

ANSWER: We are planning to satisfy requirements for new precision landing capability using the MLS. Purchase or lease of ILS is not recommended since the MLS will be delivered in sufficient quantities to satisfy newly qualified requirements before deliveries of the ILS would begin, even if the most optimistic estimate of ILS procurement lead time could be achieved.

SENATOR ANDREWS: Given reduced MLS funding requests, for how many years will ILS requirements continue?

ANSWER: The MLS Program calls for acquisition of 1250 systems using 3 competitive multiyear procurements to transition from ILS to MLS by the year 2000. We already have a contract to provide 178 systems, for which delivery will start in 1987. Our FY-1987 budget request for MLS has been reduced, but we still expect to contract for 500 systems in the FY-1987-91 timeframe as originally planned.

SENATOR ANDREWS: If ILS purchase is not cost effective, has FAA considered leasing ILS to address interim requirements?

ANSWER: Leasing or buying will not provide ILS any sooner than we can expect to get MLS. Under the existing contract, MLS deliveries are scheduled to begin in July 1987. If we were to initiate an ILS acquisition by lease or purchase, our experience indicates that it would take a minimum of six months to consumate a contract after funds are available in October 1986, and approximately one year from the date of contract award to the beginning of deliveries. This schedule would provide ILS by March 1988, or approximately nine months after initial MLS deliveries begin.

MICROWAVE LANDING SYSTEMS

SENATOR ANDREWS: Why can't the budget request of $43 million for microwave landing systems (MLS) be accommodated out of previous appropriations? What remains unobligated as of March 31, 1986?

ANSWER: The funds available from prior year MLS appropriations, which were available due to favorable terms of the procurement contract, have been used to fund a portion of the FY 1986 MLS program. The unobligated balance as of March 31, is $39.1 million. These funds are required for continuation of the demonstration program, program support and regional site preparation, installation and commissioning activities for those systems under procurement.

SENATOR ANDREWS: Why isn't a "small community" version MLS in the first contract? Will such MLS be included in future contracts?

ANSWER: Selection of the MLS configurations in the present contract resulted from an extensive three-phase development program. During Phase II, prototype development, several systems were built and tested. Representative configurations were chosen to examine three levels of performance capability and to evaluate packaging techniques and hardware design approaches. The configurations tested were the Small Community, Basic, and Expanded Systems. Experience with these three systems indicated that a common modular system based on the three prototype designs was the correct production approach. The system specifications were then prepared to insure achievement of the lowest life-cycle cost. The Type I configuration of the standard system will have somewhat higher performance than the originally envisioned Small Community System due to incorporated equipment features. However, the cost under the existing contract is comparable to that projected for the Small Community System in the life-cycle cost study performed by the Agency. The goal in selecting a standard system was to incorporate the 80's Maintenance Concept and to solidify and simplify supportability of all Federally maintained systems. The MLS being purchased satisfies the requirements for the Small Community version of the MLS and also meets the FAA requirements for supportability. We plan to continue to purchase the present functional design in future contracts.

SENATOR ANDREWS: Does FAA plan to award a request for proposals this fall for the second procurement 500 MLS's? If not, when?

ANSWER: We are planning to issue a request for proposals (RFP) by October 1986 for the second procurement of approximately 500 FAA systems. A portion of the DOD requirement for 328 systems will be added to this procurement.

SENATOR ANDREWS: Since the initial MLS installation date has slipped 18 months, what assurances are there that no further slippage will occur? Is July 1987 still the planned first installation date?

ANSWER: An indepth FAA management review of the Hazeltine schedule has been completed and indicates that it is reasonable and achievable. We therefore have high confidence in the new schedule; however, we cannot guarantee that a further slip will not occur. Installation of the first MLS network is scheduled for July 1987.

SENATOR ANDREWS: What is the status of software development for the Hazeltine MLS? Will this cause further delays?

ANSWER: A thorough review of the Hazeltine development effort indicates that they have a viable plan to complete this software development and that additional delays are unlikely. The present schedule for first deliveries in July 1987 considers the current status of software development and the Hazeltine plan for its completion.

AUTOMATED WEATHER OBSERVING SYSTEM

SENATOR ANDREWS: How many Automated Weather Observing System (AWOS) will be procured with the FY 1986 appropriations of $27.2 million? Explain if different from the planned 126 system.

ANSWER: Current plans are to utilize the $27.2 million in 1986 to procure 102 production systems under the 8 (a) Pilot Program and five systems first articles as part of the design phase of the planned competitive contract. The reduction in quantity is due to the non-recurring cost for the competitive contract which was accelerated from our planned FY 1987 procurement. This acceleration was necessary because of difficulties FAA had encountered with the pilot program contractor. The total planned quantity will be procured within the available and planned 5-year budget plan.

SENATOR ANDREWS: How many systems will be purchased in FY 1987 with the requested $20 million? Will all systems be for airports, where there are no current weather observers, as instructed by the House last year?

ANSWER: We plan to procure 85 systems with that $20 million in FY 1988. All systems are scheduled for non-towered airports without current weather observors.

SENATOR ANDREWS: What response is FAA making to GAO's July 1985 conclusions about AWOS adequacy?

ANSWER: The FAA pointed out and GAO agreed, that the adequacy issue they raised refers only to the AWOS requirements for towered locations. The FAA further pointed out that the requirements used by the GAO during their analysis were released by Air Traffic after our test program and were not the basis of our Program. FAA has deferred the procurement of AWOS for towered applications until a fully automatic system is available which will relieve the controller of weather observing tasks. Human observers will be hired by contract until a fully automatic system is available.

NATIONAL RADIO COMMUNICATIONS SYSTEM (NARACS)

SENATOR ANDREWS: This $8 million activity has been scaled back considerably in FY 1986, relative to the original $19.7 million request. Outline what programmatic adjustments have taken place and why.

ANSWER: The NARACS program consists primarily of a national high frequency (HF) radio network for long range communications and very high frequency (VHF) radio network for short range regional communications. Approximately two thirds of required VHF equipment has been procured to date. The balance (approximately $11.0 million) originally planned to be procured in FY 1986 has been postponed until FY 1987. The HF system will be procured via a multi-year contract and budgeted through FY 1988. The first year award will be adjusted downward to accommodate reduced FY 1986 funding. Consequently, the number of HF sites procured in FY 1986 will be reduced. The balance will be carried over to FY 1987 and FY 1988.

SENATOR ANDREWS: If system improvements can be scaled back this fiscal year, why double the program level in FY 1987?

ANSWER: The overall program has not been scaled back. Systems and equipment not procured in FY 1986 because of reduced funding is being budgeted in FY 1987 and FY 1988. The program level effort must be doubled in FY 1987 in order to complete a requirements type contract for VHF equipment. The contract expires August 7, 1987.

MAJOR LEASES

SENATOR ANDREWS: Explain the addition of budget item 5B(9), Major Leases, Utilities, and other Equipment, for which $16 million has been requested. Where were the costs previously budgeted?

ANSWER: The $16 million in budget item 5B(9), Major Leases, Utilities, and Other Equipment, represents the costs of space and equipment rental, as well as attendant utility charges which are incurred in support of FAA operational and capital improvement programs. These include: space rental and utilities at the Aeronautical Center, Oklahoma City, Oklahoma and the Management Training Center, Lawton, Oklahoma; site rental and utilities for various navigational aids such as VOR's, and the automated FSS, Leesburg, Virginia; and the rental of meeting rooms and office equipment on a temporary basis, such as for conferences.

This item was previously budgeted under the Operations Appropriation.

SENATOR ANDREWS: What will be the actual FY 1987 Embry-Riddle lease cost relative to the $2.2 million budget (p. F&E-67)?

ANSWER: It is unlikely that we will occupy the facilities for more than one or two months in FY 1987, so actual FY 1987 facilities lease costs should be minimal. Since award of the facilities contract has not yet been announced, the actual lease cost data is not available for release.

SENATOR ANDREWS: Provide a FY 1983-1987 lease and utilities cost comparison for the Mike Monroney Aeronautical Center.

ANSWER: The information follows:

LEASE AND UTILITY COSTS
(in thousands of dollars)

	FY-83 Actual	FY-84 Actual	FY-85 Actual	FY-86 Estimate	FY-87 Estimate
Lease at Mike Monroney Aeronautical Center	$3,491	$3,579	$3,250	$3,194	$4,710
Utilities for the Aeronautical Center	3,779	3,383	3,437	4,008	3,867
Lease at Management Training School	1,179	1,590	1,681	1,805	2,188

SYSTEMS ENGINEERING AND INTEGRATION SUPPORT

SENATOR ANDREWS: GAO has pointed out serious flaws in several major NAS Plan acquisitions, primarily the lack of adherence to OMB Circular A-109. This directive requires a decisionmaking process which demonstrates that a given technology will actually work. What is the System Engineering and Integration (SEI) contractor doing to oversee improvement in A-109 compliance?

ANSWER: The FAA has had formal policies implementing A-109 since March 1978. GAO has questioned the acquisition strategies of several major NAS Plan projects in regards to the adequacy of development and testing prior to production.

The System Engineering and Integration (SEI) contractor was not specifically hired to help the FAA oversee improvements in A-109 compliance. The SEI contractor does provide technical and management support, including assistance in structuring acquisition.

Several major NAS Plan projects had already received production approval prior to the award of the SEI contract (e.g., Host, ASR-9, Microwave Landing System, Mode S, and Flight Service Station). More recent major system acquisitions have been structured with definitive development and test prior to a production decision (e.g., Central Weather Processor, Voice Switch Control System, and Automated Weather Observation System); however, it is impossible to attribute this trend solely to the SEI contractors' influence.

SENATOR ANDREWS: The budget requests $82.5 million for the SEI contract in FY 1987. Does this amount include bonuses? If not, what is the estimate of this additional amount?

ANSWER: The budget request of $82.5 million in FY 1987 for system engineering includes $77.1 million for the System Engineering and Integration (SEI) contract and $5.4 million for the MITRE Corporation contract. Of the $77.1 million for the SEI contract, none is for bonuses. The amount does include both cost and award fee for FY 1987.

SENATOR ANDREWS: What changes have been made to the SEI contract, and how have any associated increased costs been offset within the total contract?

ANSWER: There have been two major contract modifications since contract award and several very minor contract modifications. The total dollar value of the minor contract changes is $1.6 million.

The first major contract modification was made in 1985 to increase and accelerate support for the Advanced Automation Program. This modification was negotiated at $96.6 million over the full ten years of the contract. The second major contract modification is currently in process and negotiations are not yet complete. This change will aggregate technical and management support for many additional NAS Plan projects under the SEI contract. The full ten year proposed value of this change is $144.4 million. The costs associated with these contract modifications cannot be offset within the total basic contract. These changes, however, do not result in an overall increase in the NAS Plan as they were planned for funding within the individual projects.

SENATOR ANDREWS: When will negotiations begin to renew the Martin Marietta contract for the second five years?

ANSWER: The contract gives the Government the unilateral right to extend the period of performance of the contract for a 3-year period beyond the initial 5-year period, and an option to further extend the period of performance for 2 years beyond the first 8 years, for a total period of performance of 10 years.

The first option for the 3-year extension must be exercised during the fifth year of the contract which ends January 30, 1989. According to the contract the first option must be exercised no later than 180 days before the contract is scheduled for completion; i.e., not later than July 30, 1988. Therefore, we would expect to initiate the decision process to exercise the first option, or to decline the option in April 1988.

SENATOR ANDREWS: Major items in the NAS Plan have slipped for a variety of reasons. NAS Plan costs have risen and savings been revised downward. What is Martin Marietta doing to achieve optimum NAS Plan implementation and productivity? If many NAS slippage factors are beyond anyone's control, including Martin Marietta, why renew the SEI contract?

ANSWER: The Air Traffic Control System is a complex, interrelated system of hardware, software, facilities, manpower, and procedures. The integration and technical integrity of the system must be maintained in order to ensure safety and efficiency.

Changes in the Ten-Year NAS Plan will always occur from year to year, due to technical issues, budget constraints, congressional mandate, etc. The FAA did not hire a System Engineering and Integration (SEI) contractor in the belief that no more changes would occur in the NAS Plan. The SEI contractor was hired to help us manage and implement the NAS Plan and maintain the system integration, technical integrity, safety, and efficiency. The SEI contractor provides the tools and technical expertise to (1) develop system designs, integrated transition plans and implementation designs and (2) establish and maintain cost, technical, schedule, benefits, and interdependency baselines. When changes occur, they evaluate the impacts and replan the system design to minimize the effects. The interrelationships between the NAS Plan projects require a strong system engineering design and control process in order to maintain total system integrity.

FLEET CONVERSION

SENATOR ANDREWS: What is the status of the service life extension program (SLEP) for FAA's Sabreliners? How much is being obligated this FY and in FY 1987 and how many aircraft will be SLEP'd? If the entire fleet is not proposed for SLEP please explain why.

ANSWER: The service life extension program (SLEP) is on schedule and of the five aircraft to be SLEP'd, two aircraft have completed work; a third is in work and two are remaining to be done. Facilities and Equipment funds in the amount of one million dollars are being obligated in FY 1986 for the five aircraft. The FAA has never proposed the entire fleet of Sabreliner 80 aircraft for SLEP. The Fleet Conversion Program, as approved by Congress and the Transportation Safety Acquisition Review Council, provides for the replacement of these Sabreliners and other older, ineffective aircraft. The five aircraft to be SLEP'd are those minimum required to bridge the transition to the new aircraft.

SENATOR ANDREWS: In Exhibit-10, the budget reflects acquisition of light twin turboprop aircraft. Where is the budget request for this item? Why is there no budget request under Facilities and Equipment? What is the estimated cost of each, and estimated service life? What funds are being used, given the fact in FY 1986 Congress reached back to previous aircraft appropriations to achieve necessary Facilities and Equipment reductions?

ANSWER: This item was included in the FY 1983 and 1984 budget requests and approved by Congress. There is no budget request under Facilities and Equipment as they were approved in prior year. The estimated cost for the 19 aircraft is $41.7 million including spares and support equipment with a service life of at least 10,000 flight-hours. Prior year funds are being used and a reprogramming request is underway to provide for those funds Congress used in FY 1986 to achieve necessary Facilities and Equipment reductions.

SENATOR ANDREWS: When will the necessary reprogramming request for aircraft purchase be transmitted to Congress?

ANSWER: A final draft of the reprogramming request for aircraft purchase is currently under review. Within a matter of a few days we expect the proposal will be sent to the Secretary for approval and further transmittal to the Congress.

SENATOR ANDREWS: The budget (p. EX 10 and 11) also proposes conversion of 3 Beech-90's from lease to purchase in FY 1987. What is the cost/benefit of this proposal? How much is the annual lease? What is the purchase price? Are you purchasing the currently-leased aircraft or new aircraft?

ANSWER: The cost/benefit ratio is 2.04 over 3 years. The annual lease cost is $980.0 annually. The purchase price is $1,151.0. These aircraft are currently under lease-purchase contract and have an equity of $3,360.0. There are four Beech-90 aircraft and we plan to purchase them as soon as possible.

RESEARCH, GENERAL

SENATOR ANDREWS: The FY 1987 research request of $134.5 million represents a 28% decrease from the appropriated level. This comes at a time when major National Airspace System (NAS) components are undergoing technical review, such as the Advanced Automation System and Microwave Landing System. Why does FAA support this cut? What was FAA's request to DOT and to OMB? What major items were eliminated or significantly reduced?

ANSWER: The FAA's request to DOT was $203.0 million and to OMB was $168.0 million. The major items that were eliminated were new initiatives in long range research.

Almost every program was impacted through reductions; however, programs which impacted safety or congressional commitments were not adversely affected by these adjustments.

GRAMM-RUDMAN-HOLLINGS IMPACT

SENATOR ANDREWS: The sequestration analysis on page 9 shows that FAA took a major reduction in research for the Advanced Automation System. Why was this important activity reduced disproportionately?

ANSWER: The Advanced Automation System (AAS) activity was 52 percent of the FY 1986 enacted amount of $190.0 million. Additionally, Congress provided a $15 million transfer of F&E funds to the RE&D appropriation for Aviation Security work.

This activity was reduced to fund its share of Gramm-Rudman-Hollings, the AAS directed study, directed university work associated with University of North Dakota, Wichita State College, and Barry University. Additionally, funds were required in FY 1986 for the safety related Traffic Collision Avoidance System limited installation program and airborne wind shear detection and avoidance. None of the other RE&D programs had the flexibility to absorb such adjustments.

UNIVERSITY OF NORTH DAKOTA ATMOSPHERIC WEATHER RESEARCH

SENATOR ANDREWS: What is the status of the FY 1986 research contract with the University of North Dakota (UND) for atmospheric research? Last year the Office of the Secretary determined that, despite the longstanding contractual arrangement between FAA, UND, and the Bureau of Reclamation, it was necessary to clarify this grant award in Bill language. Will this language again be necessary in FY 1987 to continue this important project? What is the anticipated UND FY 1987 program level?

ANSWER: The University of North Dakota (UND) FY 1986 contract is now undergoing final administration approval. Award is expected by June 2. No language is required in the FY 1987 Bill to continue this program. The anticipated funding level for FY 1987 is $2.2 million of which $950,000 is in the R,E&D request and the remainder in the F&E request.

SENATOR ANDREWS: Please summarize for the record the ongoing work being provided by UND.

ANSWER: UND has provided research support to the FAA Doppler radar test bed facility at Memphis, Tennessee, for the past two summers. This included furnishing a C-band Doppler radar system for dual Doppler comparisons and an instrumented weather research aircraft for collecting cloud truth data. This work will continue at Huntsville, Alabama in the summer of 1986 and is planned for a yet undetermined location in the summer of 1987.

In addition, in January 1985, UND initiated an icing research study which will lead to development of an icing algorithm for NEXRAD. Icing research work was done in the winter of 1985/1986 and is planned for the winter of 1986/1987. It is anticipated that this effort will provide an algorithm by latter part of 1987.

SENATOR ANDREWS: Why does the FY 1986 level (p. RED-57) show $2.778 million for weather research. When the UND contract alone totals $2.893 post-sequester?

ANSWER: The FY 1986 funding on p. RED-58 does not include the $2.9 million for the University of North Dakota. At the time the budget was formulated, funding for Congressionally-directed university work had not been distributed to the programs. However, the $2.9 million is now available in the weather program and being obligated.

SABOTAGE DETECTION

SENATOR ANDREWS: Recent newspaper reports state that the FAA-approved pilot and crew training program is of limited effectiveness. Outline the types of training requirements currently in place and how FAA is correcting current deficiencies.

ANSWER: We believe the training provides a good basic explanation of the security procedures all flightcrews should know. We are aware that many of the older crewmembers are knowledgeable of the basic information provided but there are many newer crewmembers who need to be brought up to a common level. We are presently revising and updating the training program of concern. We are also concentrating our efforts on ensuring that the recurrent training program is topical and informative.

SENATOR ANDREWS: The research budget shows a marked increase for aviation security research. What will be the major accomplishments as a result of the FY 1986 and FY 1987 obligation of 11.8 and 12.7 million, respectively?

ANSWER: The additional funding in FY 86 and 87 has resulted in accelerating delivery of two mature technologies for explosive detection and expanding the number of promising new technologies funded. Development, testing, and documentation of the thermal neutron explosive detection system for baggage and air cargo has been accelerated from completion in 1990 to 1987. Development, testing, and documentation of the chemiluminescent explosive vapor detector for passenger screening has been accelerated from 1991 to 1988.

SENATOR ANDREWS: How soon will improved explosive detection technologies be available? Will carriers and airports be required to employ new equipment?

ANSWER: Thermal neutron interrogation of baggage and air cargo for explosiveswill be available in 1987. Chemiluminescent screening of passengers for explosives will be available in 1988. Implementation will be dictated by the level of the threat. Carriers will not be required to implement specific technologies but rather to provide specified security levels.

SENATOR ANDREWS: What other Federal agencies have done, or are doing, work in explosives detection? To what extent is FAA able to integrate those efforts into its aviation security program?

ANSWER: Historically, outside the Department of Transportation, most work in explosive detection had been done by the Departments of Energy (DOE) and Defense (DOD). The FAA is the lead agency in the area of explosive detection research and development and has been able to incorporate both the requirements and the experiences of other agencies into its program. Technical experts from DOE and DOD take an active role in the FAA program providing a broad perspective of technology assessment and proposal evaluation. The FAA has funded and jointly funded research efforts with DOD and DOE laboratories in explosive detection research and development.

The FAA also continues to conduct informal exchange with other agencies involved in explosive detection such as Department of State, Customs Service, Federal Bureau Investigation, and others.

COLLISION AVOIDANCE SYSTEMS

SENATOR ANDREWS: The research budget includes $4.3 million for airborne collision avoidance systems (TCAS) development (p. RED-23). How will a TCAS II prototype be installed and flown in FY 1986, if operational performance changes are still being implemented?

ANSWER: The TCAS Program consists of development efforts for TCAS I, TCAS II, and TCAS III, of of which are funded out of the referenced $4.3 million. The TCAS II prototype which has been installed and certificated in Piedmont Airlines B-727, number N857N, represents a mature and well tested CAS technology. The 16 commercial quality TCAS II units, which are currently being fabricated under the TCAS II Limited Installation Program (LIP) contract, are virtually identical to the prototype in function and operation, with only minor changes and improvements. The R,E&D funds being expended on the TCAS II primarily reflect the costs of program management and the evaluation of flight data, since the technical development of TCAS II has been completed for some time.

SENATOR ANDREWS: Will TCAS III be fully developed during FY 1987, with the projected completion of the Minimum Operational Performance Standard?

ANSWER: The FAA will fulfill its requirement to provide full technical documentation to the Radio Technical Commission for Aeronautics (RTCA) to allow development of the TCAS III Minimum Operational Performance Standards (MOPS) during FY 1987. This effort will involve the simulation and flight test of the second generation TCAS III software during calendar year 1986. Development of the TCAS III MOPS document which is the responsibility of the RTCA should be complete late in FY 1987 or early FY 1988. The MOPS drafting effort will require significant FAA support.

SENATOR ANDREWS: When the TCAS II Limited Installation Program (LIP) is complete, will FAA turn this program over to industry irrespective of the status of TCAS III development?

ANSWER: The initiation of TCAS II Limited Installation Program (LIP) represented the first step in the transfer of TCAS technology to industry. At the conclusion of this program, 16 commercial quality TCAS II units will have been flown and evaluated on three U.S. airlines. At the completion of this evaluation, the participating avionics firms, Allied Bendix and Sperry-Dalmo Victor will possess all of the technical capability to manufacturer TCAS II units commercially for the airline market.

TCAS III is still in the technical development phase and flight tests will not be completed until the end of calendar year 1986. After these tests have been evaluated, a technical data package will be prepared by the FAA for use by the Radio Technical Commission for Aeronautics to develop Minimum Operational Performance Standards (MOPS).

TCAS II represents a fully mature technology which is ready for airline installation and use now and will provide significant improvement in collision avoidance protection. TCAS III offers the prospect of additional capability but requires additional development effort and evaluation before it can be considered complete. At the completion of the MOPS for TCAS III the industry will have all the information necessary to provide the additional capability of the TCAS III as a commercial product.

SENATOR ANDREWS: What are the advantages and disadvantages of FAA concluding its TCAS efforts after the TCAS II LIP?

ANSWER: The TCAS II Limited Installation Program (LIP), per se, represents the transfer of the Airborne Collision Avoidance Program to the private sector. At the behest of the aviation community, the FAA developed and perfected the TCAS to the point that it can be certificated for airline use. In the cost-shared LIP, two avionics manufacturers and their airline team members will build and install 16 commercial quality TCAS II units which will be flown both domestically and in international airspace.

At the completion of the LIP, the FAA will be, at most, a source of technical data for the TCAS II. The most advanced techniques and hardware will be the property of the participating LIP team members. We believe that FAA participation beyond this point of TCAS II development is unnecessary and, further, might tend to retard the normal avionics development.

The TCAS II LIP marks the termination of FAA development for TCAS II; however, efforts for TCAS I and TCAS III will continue until national standards and Minimum Operational Performance Standards (MOPS) are published. Traditionally, the publication of MOPS is the point at which commercial development of avionics is initiated. We believe that this will be the case for TCAS I and TCAS III.

SENATOR ANDREWS: What would be the costs advantages and disadvantages of completing LIP testing of TCAS III? What would be the FY 1987 cost?

ANSWER: The FAA has sponsored a Limited Installation Program (LIP) for the TCAS II which provides Federal funding for an initial set of TCAS II installations in airline aircraft. No LIP has been planned for TCAS III, therefore, the advantages and disadvantages of initiating such an extension to the overall TCAS program are addressed in the following discussion.

The primary advantage of providing a cost-shared LIP for TCAS III is that such a development effort would assure that the TCAS III capability is evaluated in airline usage. Furthermore, by taking advantage of the ongoing LIP efforts for TCAS II, a TCAS III LIP could be accomplished in piggy back manner using the same development teams and modifying the existing contracts which would minimize the development period.

The sole disadvantage of adding a TCAS III LIP to the current TCAS Program is that the additional procurement cost alone is estimated to be $14-$20 million, in addition to which the current TCAS Program fundings level would need to be extended for an additional three to four years to provide the necessary management and technical support required.

The overall cost of extending program technical management support for a TCAS III LIP is estimated to be $2,375,000. For FY 1987, program costs and procurement costs are estimated to be $7,750,000.

SENATOR ANDREWS: What does FAA project for availability and use of TCAS I?

ANSWER: The Radio Technical Commission for Aeronautics (RTCA), an organization composed of private industry and Government agencies dedicated to the specification of avionics standards, is developing Minimum Operational Performance Standards (MOPS) for the TCAS I system. The RTCA must complete the MOPS and present them to the aviation community before the likelihood of commercial availability can be assessed with any accuracy. Representatives of general aviation organizations, avionics manufacturers, and the FAA are working with the RTCA to develop the TCAS I MOPS. This broad spectrum of support for these efforts is indicative of user interest. The RTCA schedule is not under FAA control; however, we estimate that the MOPS will be complete by the end of the calendar year 1987. TCAS I units could be available for sale within two years of the MOPS publication. The FAA anticipates that the most likely users of TCAS I will be commuter airlines, rotorcraft, and corporate aircraft.

RE&D OBLIGATIONS

SENATOR ANDREWS: Why were actual FY 1985 travel obligations $1 million less than the $2.8 million estimated in last year's justification?

ANSWER: The main reason for the low travel obligations is that schedules related to the Advanced Automation Program were adjusted to reflect program changes. As a result, some contract related reviews were pushed forward into FY 1986, reducing FY 1985 travel requirements.

SENATOR ANDREWS: Obligations for personnel compensation for FY 1986 were estimated in last year's original budget to be $34.2 million. This factored in the proposed 5% pay cut, for which later budget amendments were submitted. Why will these obligations only reach $29.1 million, a 14% reduction? What categories of research personnel have been transferred to facilities and equipment?

ANSWER: In FY 1986, some personnel in R,E&D appropriation positions are being assigned F&E project work at the Technical Center. The associated FTE's are being funded from the F&E appropriation. This reimbursement was not reflected in the original budget submission for FY 1986. In FY 1987, we are proposing a transfer of these positions from R, E&D to F&E. The personnel transferred to F&E are in the categories of air traffic control specialists, engineers, technicians, computer system analysts, mathematicians, and other miscellaneous categories.

HANDICAPPED ACCESSIBILITY

SENATOR ANDREWS: What are the current restrictions regarding the use of white canes by blind airline passengers?

ANSWER: Rigid canes must be stowed in accordance with the carry-on baggage requirements of Federal Aviation Regulations (FAR) Section 121.589 which, in general, means they are not accessible to the individual during takeoff and landing. Flexible travel canes may be stowed under passenger seats so long as they do not protrude into an aisle and are not between seats in an emergency exit row.

SENATOR ANDREWS: What safety concerns are addressed by FAA's rules restricting the carriage of white canes?

ANSWER: The FAA is concerned that the inflexible cae or in some cases the flexible travel cane could become lodged across seats or an aisle in such a manner so as to become an impediment to passengers during an emergency evacuation.

SENATOR ANDREWS: Do these rules apply to all carriers, or are they limited to carriers receiving direct federal subsidy or using federally assisted airports?

ANSWER: The FAA's safety regulations apply equally to all U.S. air carriers.

SENATOR ANDREWS: Have you received complaints from blind passengers regarding these restrictions?

ANSWER: Since the carry-on baggage regulations were amended to allow for the carriage of flexible travel canes, the FAA has not received any complaints about canes.

SENATOR ANDREWS: The National Federation of the Blind recently alleged in a letter to the House of Public Works and Transportation Aviation Subcommittee that airlines are unjustly discriminating against blind travelers, including requiring them to attend special briefings, sit with persons of the same sex, board ahead of other passengers or sit on blankets. Many of these practices seem to be unrelated to safety concerns. Is FAA aware of these allegations?

ANSWER: Yes, the FAA is aware of the allegations. However, the Federal Aviation Regulations (FAR) pertaining to air transportation of handicapped persons (Section 121.586) became effective May 16, 1977, and were based on a concern about the availability of adequate air transportation and for relevant safety parameters associated with the carriage of handicapped persons. FAR Section 121.586 provides that an airline may not refuse transportation to a person on the basis that the person may need assistance to move expeditiously to an emergency exit unless the airline has adopted procedures for carrying such persons and (1) the person cannot be carried in accordance with the airline's procedures, or (2) the person fails to comply with the reasonable notice requirement in the procedures. The airline must file these procedures with the appropriate FAA Flight Standards District Office. Additionally, the regulation requires the airline to make available to the public at each airport it serves a copy of each procedure it establishes under FAR Section 121.586.

SENATOR ANDREWS: What legitimate safety concerns are addressed by these practices?

ANSWER: The FAA has no special requirements for the carriage of the handicapped except that the passenger briefing requirements of Federal Aviation Regulations (FAR) Section 121.517 do require a special briefing of the handicapped or their escorts (if any) to ensure that the handicapped person will know how and when to evacuate an aircraft in case of an emergency.

SENATOR ANDREWS: Both DOT and FAA have regulations that deal with transportation of the handicapped. DOT regulations appear to prohibit an airline from adopting special procedures for the blind unless these procedures are required on safety grounds. Does FAA review the airline procedures to decide whether they are required for safety?

ANSWER: The FAA does not approve or endorse the airline's procedures, except in regard to safety matters. When airlines file these procedures with the FAA, the FAA's practice has been to review them solely with respect to their consistency with safety. For example, one airline's procedures may provide that handicapped passengers may not sit in a row by an emergency exit; another airline's procedures may not restrict the seating of handicapped passengers in this way. In either case, the FAA's review would be limited to determining whether the procedures caused a safety problem. The FAA would direct the airline to change a requirement only if it impaired safety. The FAA would not raise with the airlines the issue of whether the requirement resulted in inappropriate treatment of handicapped passengers.

SENATOR ANDREWS: Are non-safety requirements brought to DOT's attention by FAA? If not, how does DOT determine whether a particular procedure is a safety requirement?

ANSWER: The FAA does not, as a part of its review process, routinely communicate with the DOT. The fact that an airline's procedures have been filed with and accepted by the FAA under

14 Code of Federal Regulations (CFR) Section 121.586 does not preclude DOT from finding that a provision of those procedures violated Part 382. The DOT would determine, on a case-by-case basis, whether the practice was inconsistent with the regulation.

SENATOR ANDREWS: Do any such DOT or FAA regulations apply to all certified carriers or are they limited to carriers receiving federal subsidy or using federally-assisted airports?

ANSWER: The FAA regulations apply equally to all U.S. Air Carriers.

SENATOR ANDREWS: How are DOT and FAA regulations in this area enforced?

ANSWER: The FAA reviews an air carrier's procedures solely with respect to its consistency with FAA safety regulations. If a carrier's procedures were not in compliance with a safety regulation, the carrier would be required to revise its procedures. Any actual violation of a safety regulation would result in FAA enforcement action.

SENATOR ANDREWS: How you received complaints regarding this type of discrimination?

ANSWER: The FAA forwards to the DOT any complaints that do not involve safety regulations.

SENATOR ANDREWS: Are any additional regulations planned to deal with this sort of discrimination?

ANSWER: The FAA has no plans for regulatory action in this area.

METROPOLITAN WASHINGTON AIRPORTS CONSTRUCTION

SENATOR ANDREWS: As you know, a transfer of responsibility to a regional authority for airport operations has been approved by the Senate. To what degree is FAA's capital request for Metropolitan Washington Airports understated in anticipation of airport transfer legislation being approved by Congress this year?

ANSWER: Pending the outcome of the airport transfer legislation, we are requesting Federal funding only to the extent necessary to continue present operations and provide for required ongoing repair and rehabilitation work. We believe that the responsibility for the funding of major new capital development at both airports should be transferred to the new airport authority. Our capital request for $7 million will accomplish the most urgently needed repair and rehabilitation work in FY 1987.

SENATOR ANDREWS: What additional construction might be undertaken at the airports by a regional authority in 1987 if a transfer is made?

ANSWER: Even if the Federal legislation is enacted soon, following its enactment the members of the Airport Authority Board must be appointed and the terms of the lease negotiated with the Department of Transportation. There is much that must be accomplished during the negotiations. For example, the airport authority will need to set up the administrative and financial mechanisms for funding and operating the airports. We anticipate that these arrangements will take at least a year. Therefore, we do not expect the new airport authority to take control of the airports until sometime in FY 1988. In light of this, we do not expect the authority to undertake airport improvements in FY 1987.

SENATOR ANDREWS: If it becomes apparent that a transfer to an airport authority is not going to take place imminently, would you intend to revise your modest construction request for 1987 in order to better serve the traveling public?

ANSWER: We believe our request is sufficient to accomplish the most urgently needed repair and rehabilitation work during FY 1987. Whether the transfer legislation passes or not, we do not anticipate additional construction during FY 1987.

SENATOR ANDREWS: Are all of the improvements in your construction request safety-related?

ANSWER: Yes, safety is a factor in all of the projects in our construction request.

REPORT ON WASHINGTON AIRPORTS CAPITAL IMPROVEMENTS

SENATOR ANDREWS: House Appropriations Committee Report 99-256 required that if legislation authorizing the Metropolitan Washington Airports' transfer has not been enacted by January 1, 1986, the Secretary shall provide not later than March 15 a study of needed Federally financed improvements at the airports and associated costs, as well as a plan and schedule for making such improvements. What major necessary improvements at each airport were identified by this study?

ANSWER: Copies of this report have previously been provided to the Senate Committee on Appropriations and the Transportation Subcommittee, and a copy is herewith provided for the record.

LETTER FROM ELIZABETH HANFORD DOLE

Identical to: Andrews & Lehman

The Honorable Mark O. Hatfield
Chairman, Committee on Appropriations
United States Senate
Washington, D.C. 20510

MAR 19 1986

Dear Mr. Chairman:

The enclosed report is in response to the direction contained in the House Committee on Appropriations' Report 99-256, dated September 5, 1985. While the Committee focused on the needed federally financed improvements at Washington National and Washington Dulles International Airports, we must recognize that the improvements described in the enclosed report are desirable regardless of who operates the airports or how the improvements are financed. Our very strong view that this level of capital investment cannot effectively compete with other Federal budget priorities has resulted in the clearly inadequate arrangements at National Airport and the shortage of parking at Dulles. As the report shows, demand for facilities at the two airports will require funding in the range of $530 to $700 million in capital improvements to meet projected growth, particularly to allow several "hub-and-spoke" operations that are developing at Dulles International. Overall aviation and other budget priorities, however, will not permit a federal expenditure of this size at this time and at the expense of other worthy aviation projects nationwide. By way of comparison, since 1982 when the airport grant program was established, Atlanta Hartsfield has received the most grant money — only $75 million.

We believe that the airport operating role and responsibility for the funding of needed capital development should be transferred to a new airport authority. Legislation has been introduced in both Houses of Congress to accomplish this transfer.

Currently, the Department of Transportation is requesting Federal funding only to the extent necessary to continue present operations and provide for required ongoing repair and rehabilitation work. The new airport authority would then have the responsibility of funding all of the major new capital development at both airports. We believe that the airports' underlying financial strengths, coupled with the new authority's access to the private bond market, would make these types of development quite achievable. In addition, this preferable airport arrangement would give the airports access to the Airport and Airway Trust Fund on the same basis as other airports nationwide.

Because the funding of these improvements is best accomplished by the new airport authority, we are reluctant to prejudge how they might plan and schedule the needed improvements. However, with the continuing rapid growth at Dulles, a 47% increase in 1985 alone, and the accelerating pressure on Dulles' facilities, we are confident that the new authority would commence funding and construction activities during its first year of operation. We expect the long overdue improvements at National Airport to begin within the same time period. We are also confident that the new authority will assess the needs about the same as we have, as detailed in the enclosed report. These assessments are drawn from a substantial amount of planning work performed over the past several years.

I believe that you will agree with us that the facility improvements described in the enclosure are truly needed. I trust that you will back our efforts to improve the airports by supporting the transfer legislation.

Sincerely,

Elizabeth

Elizabeth Hanford Dole

Enclosure

DOT Report in Response
to House Report 99-256.

METROPOLITAN WASHINGTON AIRPORTS - CAPITAL DEVELOPMENT NEEDS

Both Washington National and Washington Dulles International Airports require significant capital development during the next 5 years. National's outmoded facilities are in need of major improvements to upgrade the level of service provided to travelers. At Dulles, facilities need to be expanded to keep pace with the rapid rate of growth now occurring at that airport.

At Washington National Airport, redevelopment options range from $110 million to $280 million. The $110 million redevelopment would provide a number of significant improvements, but still leave a lot undone. For $280 million, National could be redeveloped into a first-class airport.

In deciding on the level of funding for redevelopment at National Airport, considerations will include the funding demands of the concurrent expansion program at Dulles, the impact that redevelopment will have on the fees and charges at the airports, and the support/opposition from the airlines and the surrounding communities to the various levels of redevelopment efforts.

We have attached estimates broken into two major categories of redevelopment plans for National Airport, i.e., a minimum service level and a conventional service level. These estimates provide a general idea of where the redevelopment funds would be spent at each of these service levels. In the minimum service level plan, emphasis would be placed on terminal improvements, structural parking, and roadway improvements. The conventional service level development plan would provide more extensive terminal redevelopment, a substantially better road system, more extensive airfield improvements, and a number of other building and landside improvements.

At Washington Dulles International Airport, we estimate that $420 million will be needed in the next 5 years for new development. Utilization of Dulles has increased rapidly during the past 4 years, with passenger levels up 12 percent in 1982, 16 percent in 1983, 18 percent in 1984, and a phenomenal 47 percent in 1985. First priority needs to be placed on expanding facilities at Dulles to support a continuation of current positive growth trends.

Attached are estimates of the major new development needs identified in the recent update of the Dulles Master Plan. The top priority of this development plan is to build two 24-gate midfield terminals with an underground people-mover connecting the two terminals with the main terminal. Other new development includes expanding the main terminal, acquiring land for a fifth runway, constructing additional parking facilities, expanding aprons and taxiways, and improving roads.

In addition to the above capital development needs, the two airports in combination will require an additional $10 to $15 million per year for ongoing repair and rehabilitation work.

WASHINGTON NATIONAL AIRPORT - FACILITIES MODERNIZATION

A master planning study is underway to develop guidelines for a modernization program for Washington National Airport. The master planning study discusses both a "Minimum Service Level" concept that addresses only the most urgent needs of the airport to provide an increased level of service over that currently available, and a "Conventional Service Level" concept which would provide a level of service comparable with other major airports.

The "Minimum Service Level" concept focuses on the major deficiencies at the airport involving such items as passenger access between the terminal facilities and the METRO station, ground access circulation, terminal space utilization, and public parking.

Major developments proposed under the "Minimum Service Level" concept include the following:

- Construct a supplemental terminal building in the upper parking area west of the North Terminal to provide ticketing/baggage claim service for the North Terminal, which would be renovated to provide all other required services.
- Provide enclosed passenger access to connect the METRO station, the new terminal facility, and the existing North Terminal.
- Modify the interior of the Main Terminal building to improve passenger circulation and enhance passenger conveniences.
- Reconfigure the internal circulation roadways to improve airport access, provide more distances for "decision making" by motorists, and provide grade separation at intersections.
- Remove Hangars 1 and 2, located immediately south of the Main Terminal, to provide space for queuing and storing taxicabs.
- Realign some taxiways, primarily at the north end of the airport, to improve access to and from the two main runways.
- Provide structured public parking facilities to accommodate an additional 750 spaces.

The "Conventional Service Level" concept recommends a modernization program which would provide airport users with a facility offering services considered standard in the industry. The concept, through new development and the reorganization of functional activities, would significantly improve the level of service offered the public. In addition to improvements covered under the "Minimum Service Level" concept, major developments proposed under this concept include the following:

- Replace the North Terminal with a new and enlarged structure which would be connected to the METRO station by underground passages.
- Provide a new roadway system with multi-level service to the terminals.
- Construct structured public parking facilities with passenger access connections to the terminal buildings.
- Provide further improvements to the Main Terminal.

WASHINGTON NATIONAL AIRPORT - FACILITIES MODERNIZATION

	Minimum Service Levels	Full Service Levels
Terminal Construction and Alteration	$ 62,000,000	$156,000,000
Parking Facilities	12,000,000	42,000,000
Taxiway/Airfield Improvements	4,000,000	12,000,000
Roadway Improvements	12,000,000	20,000,000

	Minimum Service Levels	Full Service Levels
Metro Station and Connectors	$ 1,700,000	$ 9,000,000
Buildings (new or renovated for those displaced by improvements)	10,300,000	17,000,000
Miscellaneous Landside Projects	8,000,000	24,000,000
Totals	$110,000,000	$280,000,000

In addition to the above capital development needs, the two airports in combination will require an additional $10 to $15 million per year for ongoing repair and rehabilitation work.

WASHINGTON DULLES INTERNATIONAL AIRPORT - NEW DEVELOPMENT

The recent update of the Dulles Master-Plan has identified $420 million in developmental requirements for Dulles which will be needed in the next 5 years. The most significant feature of this new development is the "midfield terminal" expansion scheme.

The initial increment of midfield terminal development should be two 24-gate facilities, connected to the main terminal by tunnels with baggage and people-mover capability. The midfield terminal will be located approximately halfway between the main terminal and the current jet apron. The basic elements include a people-mover station near the base of the air traffic control tower, an expanded baggage transfer interface, relocation and addition of site utilities and fueling, aircraft aprons and taxiways, and two 24-gate multi-level terminal buildings, each with a people-mover system to the main terminal.

These midfield terminals will serve the pattern of airline service that has intensified since deregulation. This pattern requires quick aircraft turn-arounds and more efficient interchange of connecting passengers. This aspect of the airline industry is particularly well suited to serve short- and medium-haul markets, the very types of markets which have been the focus of Dulles' very strong growth over the past several years.

The Dulles master plan update has also identified apron and taxiway improvements which will be needed in the next few years to avoid aircraft backups as the number of aircraft using Dulles continues to increase. Included is a widening of the jet service apron to provide bypass capability for larger aircraft, expansion of the cargo apron to increase cargo aircraft parking space, and an increase in the number of bypass and exit taxiways to improve aircraft circulation, eliminate potential bottlenecks, and reduce runway occupancy time.

Significant improvements to the airport road system will also be needed as Dulles automobile traffic continues to increase. Several roads need to be dualized, including Road A which is currently a one-way road that serves the new satellite public parking area.

Other major improvements that will be required in the next few years based on the projected growth of Dulles are extension of the main terminal, acquisition of land for a fifth runway, and additional public parking. The main terminal is to be extended at both ends from the current 600 feet to 920 feet. This will provide more ticket counter space, baggage handling capacity, and passenger hold rooms. Land for the fifth runway is recommended for acquisition while the property is relatively undeveloped, making it available at a reasonable cost. Development of the area surrounding

Dulles is emerging dramatically and it cannot be expected that the desired property will remain undeveloped for long. The need for additional public parking is already in evidence, and this will undoubtedly be among the first of the development requirements funded by the new airport authority.

WASHINGTON DULLES INTERNATIONAL AIRPORT - NEW DEVELOPMENT

Midfield Terminal	
24-Gate Terminal	$ 70,000,000
Underground People Mover System	30,000,000
Midfield Apron	22,000,000
Subtotal	$122,000,000
Second 24-Gate Terminal	70,000,000
Underground People Mover System	27,000,000
Midfield Apron	22,000,000
Subtotal	$119,000,000
Total, Midfield Terminal	$241,000,000
Airfield Facilities	
Widen Jet Service Apron by 150 Feet	$ 14,000,000
Expand Cargo Apron by 40,000 Sq. Yds.	6,800,000
Taxiway W-2 to New Cargo Apron	4,900,000
Bypass Taxiway, North End of Runway 19R	1,400,000
Bypass Taxiway, South End of Runway 1R	1,400,000
Exit Taxiway, Runway 1R to Taxiway E-1	1,400,000
Exit Taxiway, Runway 19R to Taxiway W-1	1,400,000
Total, Airfield Facilities	$ 31,300,000
Airport Roads	
Complete Road A	$ 6,500,000
Dualize East-West Service Road	3,400,000
Dualize North Service Road	400,000
Construct Services Road, East of Runway 1R	2,600,000
Additional Lanes, Sully to East-West Service Road	1,300,000
Construct Southeast Ramp, Sully Road	500,000
Total, Airport Roads	$ 14,700,000
Main Terminal	
Extend Terminal from 600 Feet to 920 Feet	$ 50,000,000
Expand Baggage Facilities	34,000,000
Enlarge Federal Inspection Services (FIS) Area	14,000,000
Total, Main Terminal	$ 98,000,000
Land Acquisition for Fifth Runway	$ 18,000,000
Construct Parking Facilities (7,000 Spaces)	$ 17,000,000
Total, Dulles Development Requirements	$420,000,000

In addition to the above capital development needs, the two airports in combination will require an additional $10 to $15 million per year for ongoing repair and rehabilitation work.

SENATOR ANDREWS: What is the total cost of improvements identified by this study?

ANSWER: At Washington National Airport, redevelopment options range from $110 million to $280 million. The estimate for new development to accommodate projected growth at Washington Dulles International Airport is $420 million.

SENATOR ANDREWS: Over what period of time should such improvements be made?

ANSWER: The improvements should be made over a 5-year period.

SENATOR ANDREWS: In your opinion, would all such improvements be made if the airports were operated by an airport authority?

ANSWER: We believe an airport authority would assess the needs about the same as we have, as detailed in the Capital Development Needs Report. These assessments are drawn from a substantial amount of planning work performed over the past several years.

SENATOR ANDREWS: Over what period of time would you estimate that an airport authority would complete these improvements?

ANSWER: We are reluctant to prejudge how an airport authority might plan and schedule the needed improvements. We believe, however, that they will address the needs very much as we have, that they would commence construction activities during their first year of operation, and target completion of the improvements identified in the Capital Development Needs Report within 5 years.

SENATOR ANDREWS: If a transfer to an airport authority does not take place, which of these identified improvements would you expect to be made? What would the total cost be of these improvements?

ANSWER: All of the $530 to $700 million in improvements described in the Capital Development Needs Report are desirable regardless of who operates the airports or how the improvements are financed.

SENATOR ANDREWS: Who would pay for these improvements if a transfer is not made?

ANSWER: We aren't certain what funding mechanism would be devised to accomplish these needed improvements absent a transfer. The needs would, of course, still be there and we believe that a transfer is the best way to meet them. However, under any funding arrangement, the cost will ultimately be passed on to the airport users.

SENATOR ANDREWS: This study states that in addition to capital development needs, the two airports in combination will require an additional $10 to $15 million per year for ongoing repair and rehabilitation work. Where are these ongoing needs reflected in your 1987 construction budget request?

ANSWER: The entire $7 million requested for FY 1987 is for ongoing repair and rehabilitation work.

DULLES MIDFIELD TERMINAL

SENATOR ANDREWS: What is the status of design work for the Dulles Midfield Terminal?

ANSWER: The contract for preliminary design of the midfield terminal was awarded in April 1985 and is scheduled to be completed in the early summer of 1986.

SENATOR ANDREWS: When will final design be completed?

ANSWER: The final design is expected to be completed in mid-1987.

SENATOR ANDREWS: Who is funding this design work and at what cost?

ANSWER: A $4 million gift has been received from the Commonwealth of Virginia for the final design of the first midfield terminal.

SENATOR ANDREWS: Will construction of a midfield terminal take place without a sale or transfer of operating responsibility to an airport authority?

ANSWER: Our view is that this level of capital investment cannot effectively compete with other Federal budget priorities at this time. Some funding mechanism other than the Federal appropriations process is needed to obtain financing for the midfield terminal.

METROPOLITAN WASHINGTON AIRPORTS OPERATION AND MAINTENANCE

SENATOR ANDREWS: What was the effect on Metropolitan Washington Airports operation and maintenance of the reductions required by Gramm-Rudman-Hollings?

ANSWER: Gramm-Rudman-Hollings reduced the Operation and Maintenance, Metropolitan Washington Airports appropriation by $1,466,000. However, due to the severe constraints in FY 1986 coupled with the increased needs for heightened security measures, $1,200,000 in airport revenues has been credited to meet ongoing operational needs at the airports. This is consistent with authorizing language contained in the appropriation which funds the airport operations. Due to this offset, the impact of Gramm-Rudman-Hollings has been small.

SENATOR ANDREWS: In what areas were reductions made?

ANSWER: Reductions were made in staffing and overtime costs, and in maintenance service contracts. However, offsetting revenues credited to our requirements will permit us to restore staffing, overtime and most maintenance service contracts to previous levels.

SENATOR ANDREWS: Were any personnel furloughed or fired in order to achieve Gramm-Rudman-Hollings required cuts? If so, how will such personnel reductions affect airport security?

ANSWER: We did not furlough or fire any personnel in order to achieve the Gramm-Rudman-Hollings required cuts.

SENATOR ANDREWS: Your budget justification includes an increase of $1,466,000 to bring the police, firefighter, and mobile lounge workforce to an adequate on board employment level, and for preventive maintenance projects that have been deferred in order to accommodate the FY 1986 Gramm-Rudman-Hollings reductions. How much of this increase is attributable to personnel costs?

ANSWER: The $1,466,000 increase reflects restoration in FY 1987 of FY 1986 Gramm-Rudman-Hollings reductions. The amount restored for personnel costs is $1,060,000.

SENATOR ANDREWS: Are these increased costs for new personnel or for salary increases for existing personnel?

ANSWER: These increased costs in FY 1987 are to fill positions left vacant in FY 1986 because of the Gramm-Rudman-Hollings funding reduction.

SENATOR ANDREWS: Do you intend to increase the police force at the airports as a means to enhance security?

ANSWER: Yes, we intend to increase the police force by filling all existing police vacancies.

SENATOR ANDREWS: It was recently reported that you were increasing the pay of Federal police officers at Washington National and Dulles International Airports. What prompted you to make this change in salary structure?

ANSWER: Metropolitan Washington Airports has had a long-standing, well-documented recruitment and retention problem for airport police officer positions dating back to 1964. This problem is largely due to the low salary structure for airport police officers as compared to other Federal and non-Federal law enforcement forces in the Washington metropolitan area. Since our latest accelerated recruitment drive began in June 1983, 105 new officers have entered on duty and 112 have left the force. The heightened awareness in recent months of aviation security threats made it all the more imperative that we achieve a competitive pay scale in order to stabilize our police operation. We are very pleased that we have finally achieved a competitive scale.

SENATOR ANDREWS: These same reports indicated that there were 97 officers and 37 vacancies on the force charged with guarding the airports. Since the announcement of pay increases, how many of these vacancies have been filled?

ANSWER: As of May 13, there were 112 officers on board. Since the new police special pay rates were announced on April 3, nine officers have entered on duty, seven more are scheduled to enter on duty by mid-June, and 27 candidates are in various stages of the employment and security clearance review process.

SENATOR ANDREWS: How much overtime compensation for airport police do you expect to pay in 1986? How does this amount compare to 1985?

ANSWER: Our current estimate for police overtime in FY 1986 is $767,000, including the impact of the recent police pay raise. In FY 1985 we paid $675,000 for police overtime.

SENATOR ANDREWS: What total police force do you intend to have on board in 1987? Of that number, how many will be first year officers?

ANSWER: Our goal is to have all of our 136 currently authorized airport police officer positions filled by the end of FY 1986 and to maintain full staffing during FY 1987. Approximately 40 officers will be in their first year of employment as police officers at the start of FY 1987.

SENATOR ANDREWS: What training is required of new airport officers?

ANSWER: New airport police officers must complete both four weeks of in-house training and eight weeks of training at the Federal Law Enforcement Training Center. They also receive training on the operation of all river rescue craft and use of related equipment.

SENATOR ANDREWS: Is the training requirement for airport police officers as extensive as that of local police forces in this area? If not, why?

ANSWER: Yes, the training requirements are as extensive as that of local police forces in this area. In addition, many of our officers qualify for the Federal Air Police Program which requires further specialized training.

SENATOR ANDREWS: Are the police forces at the airport being given any special training to counter potential terrorists? If so, what?

ANSWER: Yes, the police at both airports are undergoing additional training in the use of special weapons and they are being instructed to recognize potentially dangerous persons, vehicles and incidents.

SENATOR ANDREWS: In your object classification for Operation and Maintenance, Metropolitan Washington Airports, what activities are included under the category "lands and structures"?

ANSWER: The "lands and structures" category includes land and interest in land, buildings and other structures, additions to buildings, nonstructural improvements, and fixed equipment when acquired under contract. We primarily use this category for facility projects which involve fixed improvements.

SENATOR ANDREWS: Your budget justification shows $774,000 in actual 1985 obligations for lands and structures. Last year's justification estimated no 1985 obligations in this category. Please explain.

ANSWER: In 1985 we had two unprogrammed lands and structures projects, one at each airport. At National, the runway crack sealant failed and we contracted to have the failed sealant removed and replaced with new sealant. At Dulles, we contracted to expand the west end of the terminal apron to accommodate new airline activity.

SENATOR ANDREWS: The budget justification estimates $119,000 for equipment in 1986. Last year's justification estimated 1986 equipment obligations to be $1,303,000. What equipment purchases are not being made in 1986 that you anticipated last year?

ANSWER: The Senate Committee on Appropriations Report 99-152 reduced the FY 1986 appropriation for the operation and maintenance of the Metropolitan Washington Airports by $1,300,000, stating that "the reduction has been taken in replacement equipment for both airports, pending the outcome of the transfer legislation." Based on the Senate guidance we are only replacing police cruisers and miscellaneous small equipment items in FY 1986 and FY 1987. A listing of the equipment deleted from our FY 1986 program is herewith provided for the record.

OPERATION AND MAINTENANCE, METROPOLITAN WASHINGTON AIRPORTS

EQUIPMENT DELETED FROM FY 1986 PROGRAM

Washington National Airport	Quantity	New or Repl.	Amount
Change-Making Machines	5	Repl.	$ 10,000
Miscellaneous Administrative & Engineering Equip.	Var.	Both	14,000
Pumper Truck	1	Repl.	200,000
Miscellaneous Police, Fire, and First Aid Equip.	Var.	Both	21,000
Snow Broom	1	New	210,000
Dump Truck w/Slide-In Sander and Plow	1	Repl.	56,000
Snow Plow Blade	1	Repl.	17,000
Truck, Cab & Chassis w/Air Compressor	1	Repl.	40,000
Pickup Trucks	4	Repl.	40,000
Utility Equipment	Var.	Repl.	36,000
Forklift	1	Repl.	20,000
Stake Body Truck	1	Repl.	16,000
Carryall	1	Repl.	12,000
Miscellaneous Maintenance Equipment	Var.	Both	45,000
Subtotal, Washington National Airport			$ 737,000
Washington Dulles International Airport			
Miscellaneous Administrative & Engineering Equip.	Var.	Both	$ 13,500
Carryall	1	Repl.	12,000
Miscellaneous Police, Fire and First Aid Equip.	Var.	Both	21,000
Snow Blower	1	Repl	225,000
Tractor, Utility	1	Repl	30,000
Stake Body, Truck, One Ton	1	Repl.	16,000
Miscellaneous Maintenance Equipment	Var.	Both	40,500
Plane-Mate Canopies	3	Repl.	24,000
Cargo Vans	2	Repl.	22,000
Window Van	1	Repl.	11,000
Pickup Trucks	2	Repl.	20,000
Carryall	1	Repl.	12,000
Subtotal, Washington Dulles International Airport			$ 447,000
Total, Metropolitan Washington Airports			$1,184,000

SENATOR ANDREWS: How will the lack of this equipment affect operations at the airports?

ANSWER: We currently estimate that we must replace between $1.3 and $1.5 million worth of equipment each year to keep our equipment inventory current. The bulk of the equipment replaced each year is for vehicles, ranging from police cruisers and pickup trucks to fire trucks and snowblowers. If these vehicles are kept beyond scheduled replacement, maintenance costs become excessive and reliability becomes a problem. This is of particular concern for police and fire vehicles, where public safety is a primary concern. By FY 1988 we will be more than $2 million behind in scheduled replacement of equipment, posing a serious "catch up" problem.

MANAGEMENT TRAINING SCHOOL

SENATOR ANDREWS: Have the General Services Administration field visits at Embry-Riddle University been completed? If not, when will they be. If so, what conclusions were reached?

ANSWER: The GSA field visit to Embry-Riddle Aeronautical University (ERAU) was completed during March 1986. This resulted in an appraisal by GSA which supported the selection of ERAU as the site for the Management Training School (MTS).

SENATOR ANDREWS: Was the space leasing arrangement found to be reasonable?

ANSWER: Yes. An appraisal made by GSA found the proposed space leasing arrangement to be reasonable.

SENATOR ANDREWS: In the event the Embry-Riddle selection is reversed, what new selection process would be utilized?

ANSWER: We do not anticipate that the ERAU selection will be reversed. However, if the selection should be reversed, we would have to review the GAO recommendation(s) along with other factors. We would then make a decision on the appropriate steps to be taken.

SENATOR ANDREWS: What is the status of the instructional contract?

ANSWER: A Request for Proposals for the Management Training School instructional services was issued late in fiscal year 1985. This was followed by a preproposal conference for potential offerors in October 1985. All subsequent activities on the procurement have been suspended pending the award of the facilities contract. Once the award for the facilities contract has been announced, offerors will have 45 days to submit their proposals for the instructional services.

SENATOR ANDREWS: The Department has not yet provided a response regarding the Source Evaluation Board's comprehensive review and analysis of Embry-Riddle's most recently audited financial report. Please provide information on the extent of such review.

ANSWER: Embry-Riddle's most recently audited financial report was submitted and was evaluated by the board.

SAIPAN TOWER

SENATOR ANDREWS: The FY 1986 budget requested funds for an air traffic control tower in Saipan. Funds for construction were denied initially on the basis that Japan could provide financial support. The State Department has said that this is not possible. What limitations exist on Japanese participation? Does the Compact of Free Association, approved by Congress last year, affect either Saipan's ability to cost share with Japan, or FAA's responsibility to Saipan aviation safety?

ANSWER: The budgetary regulations of the Government of Japan provide that financial assistance is to be extended only to independent countries or to entities or areas which are expected to achieve substantial independence in the very near future. Since the Northern Mariana Islands, of which Saipan is a part, has voted to become an integral part of the United States rather than as a independent country, it does not qualify under these criteria. Following formal termination of the U.S. Trusteeship, FAA responsibility for aviation matters in the Northern Mariana Islands, including Saipan, will continue. the Compact of Free Association addresses the Federated States of Micronesia and the Republic of the Marshall Islands, and does not pertain to Saipan.

SENATOR ANDREWS: What is the status of design work? What is the current cost for tower construction?

ANSWER: The FY 1986 budget provides $38,300 for preliminary design work for the Saipan tower. The FAA is now exploring whether the Army Corp of Engineers might be able to do the actual construction of the Saipan tower.. Under such an arrangement, the FAA would do the site survey work to finalize the design, the Corps would do the tower construction, and the FAA would do the final installation of electronic equipment. It is estimated that the total cost of the Saipan tower project would be $1.8 million.

AMTRAK ELIMINATION

SENATOR ANDREWS: At last year's FAA hearing, it was very helpful to the subcommittee to review the aviation impact of Amtrak elimination. You testified that it would be difficult for the Northeast Corridor airspace and airports to accommodate the 11 million annual Amtrak passengers. Presumable that would still be difficult in fiscal year 1987. Has FAA participated in any new planning activities within the executive branch on airport expansion in New York, Boston, and Washington?

ANSWER: Eliminating Amtrak service would impact air service in the Northeast Corridor. As we understand, the average Amtrak passenger trip on the Northeast Corridor is less than 100 miles. Some of the Amtrak passengers are destined for points between the major cities. Since short-haul air travel is normally more expensive than train or bus, we believe that many of the Amtrak passengers would have to switch to bus or automobile. Washington, New York, and Boston Airports would likely have increased flights.

Aircraft load factors and possible use of larger aircraft, however, would lessen the impact of increased takeoffs and landings. For example, fiscal year 1986 estimates of additional 38 daily takeoffs and landings from washington area airports and an additional one million New York passengers would still be a good estimate of increase for fiscal year 1987. This would constitute approximately a 3 percent increase in operations and passengers.

FAA has not participated in any new planning activities on airport expansion in the New York, Boston, and Washington areas to address the issue raised above. Each airport and metropolitan area, however, has undertaken numerous studies in the past to determine the needs of growing aviation demands. We anticipate continuous efforts in such studies to address the aviation issues at the local level.

SENATOR ANDREWS: What would be the cost in necessary airport development to add 11 million more travelers to the Northeast Corridor airspace?

ANSWER: It would be difficult, at this time, to estimate what impacts the elimination of Amtrak service would have on funding levels for airport development to add 11 million more travelers to the Northeast Corridor. An estimated 3 percent increase in operations or passengers in the Washington or New York area airports would require some increase in the needed funding levels for development. Any increase in activities, however, would adversely affect the delay problem at peak hours and would result in somewhat more terminal congestion, as well as surface congestion.

FLIGHT SERVICE STATIONS

SENATOR ANDREWS: When the requested $80 million supplemental is provided, what restorations will be made to those flight service stations on reduced staffing? The subcommittee has been informed that weather briefings have been denied to night arriving transports because of reduced staffing. How do you respond?

ANSWER: The $80 million supplemental is to avoid a furlough of FAA personnel. Some FAA facilities have been temporarily reduced in the number of hours of operation on an emergency basis. This action was necessary because of staffing shortages brought about by retirement, extended sick leave, etc. We have been unable to reassign personnel from other facilities to cover these shortages. These emergency reductions in hours have not impacted safety, since alternate provisions are available to satisfy pilot requests for weather information.

QUESTIONS SUBMITTED BY SENATOR KASTEN

GAO REPORT ON FAA INSPECTORS

SENATOR KASTEN: Admiral Engen, as I mentioned in my opening statement, the FAA's record in safety inspections is far from perfect. I also mentioned the fact that the GAO report also acknowledges FAA efforts to improve the current situation. First, are the GAO allegations true - certainly you have had a chance to review a draft of the report; and what is the FAA doing to improve the internal inspection standards?

ANSWER: FAA will prepare a detailed response to the GAO report when it is received. In general, it appears that many of the problem areas addressed in the report were previously known as a result of internal audits conducted in conjunction with the National Air Transportation Inspection (NATI) Program in 1984, and the General Aviation Safety Audit (GASA) in 1985 and 1986. The 1985 report of the Secretary of Transportation's Safety Review task Force also identifies some of the problems discussed by the GAO. Consequently, FAA has been working on the solution to these problems for some time.

The Project SAFE (Safety Activity Functional Evaluation) strategic plan is the FAA blueprint for solving these problems. Under this plan, action is being taken in each of the areas discussed by the GAO. Several actions are already complete. Completed actions include publication of National Program Guidelines, which establish mandatory work programs and priorities; revisions to inspector training programs to provide enhanced training in the short term while developing completely new courses for the long term; development of a Flight Standards evaluation function to ensure effective program management and standardization; implementation of a National Inspection Program to conduct indepth inspections of air carriers in order to determine regulatory compliance; and continued enhancement of a Flight Standards automated data processing and reporting system. Additionally, a project to redevelop the complete set of inspector handbooks is in progress. This project will ensure that inspectors have up-to-date technical guidance and that all inspector work functions are accomplished thoroughly and uniformly. As a result of these projects and others that are being coordinated under the Project SAFE strategic plan, FAA has accomplished a great deal toward improving internal inspection standards.

SEPARATION OF AVIATION TRUST FUND FROM BUDGET

SENATOR KASTEN: I have joined several Senators in support of Senator Kassebaum's bill which would separate the Aviation Trust Fund from the budget process - helping to safeguard this surplus fund from being diverted to other areas it was not intended for. Why hasn't this money been used, and will this separation from the budget process help get the money flowing to where it's needed?

ANSWER: At present, there is a $3.3 billion uncommitted surplus in the Aviation Trust Fund. The primary cause of the surplus is the so-called "penalties" in the 1982 airport and airway legislation. Those penalty clauses have restricted expenditures of the aviation tax receipts and forced the general fund to pay 72 percent of the FAA operations budget.

Removing the Trust Fund from the unified budget may not promote an increased flow of funds to airport and airway improvements. The

Trust Fund would still be Federal dollars, requiring authorizations and appropriations, and would be subject to whatever obligation ceilings Congress chooses to enact.

WISCONSIN AIRPORTS THAT HAVE NOT RECEIVED THEIR MONEY

SENATOR KASTEN: Admiral Engen, I am very concerned about the disturbing news I have received from several communities in my home state which have not received money that they had coming from the aviation trust fund. For example,

(1) Waukesha County will not get its $2.2 million for land acquisition reimbursement;

(2) Racine County will not receive its $1.2 million for runway reconstruction and land acquisition reimbursement;

and the list goes on for Wisconsin totaling $7.2 million that the state is losing. The state has been told that it is losing these funds because of Gramm-Rudman cuts. Yet, more than the required 4.3% has been cut, while the Palwaukee, Illinois Airport has received additional funding. Wisconsin officials have asserted that their funds, promised them from the aviation trust fund, have been diverted to Palwaukee. Is this true? And if so, when can Wisconsin's airports expect to receive their promised funding?

ANSWER: We made a decision to acquire Palwaukee to preserve one of the busiest reliever airports in the vicinity of our busiest airport, O'Hare. This decision requires us to divert funds from other reliever airports throughout the country. The affect of this decision on individual reliever locations such as Waukesha County's General Mitchell Field or Racine County's privately owned Racine Commercial Airport is slight. The money for Palwaukee is taken "off the top" of the reliever fund before distribution to FAA regions. This has the effect of spreading the cost of Palwaukee over the 130 to 150 reliever airports that will be funded each year during the acquisition phase. Reduced funding at airports because of Gramm-Rudman cuts will amount to about 4.3% of funds that otherwise might have been available. Where cuts exceed this, it is due to the normal deferral or work that is required during prioritization of projects in any year and is not directly the result of Gramm-Rudman cuts.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

AIRPORT SECURITY

SENATOR D'AMATO: Is the FAA planning to increase the number of security inspections at all 20 U.S. international airports?

ANSWER: Currently, FAA has categorized all U.S. airports based primarily on their volume of passenger traffic. Previous studies have determined that there is a direct correlation between passenger traffic and the incidence of criminal acts against aviation. The different categories of airports receive different frequencies of inspections, ranging from annually to quarterly with the higher volume airport with the high level of threat receiving the more frequent attention. FAA has security field offices located on the larger airports to include almost all of those with major international operations, and as a result, they are under direct observation on a daily basis. Further, additional inspections are conducted at all those airports where our observations have identified security problems or at any time there is a particular identifiable threat.

SENATOR D'AMATO: What steps has the FAA taken to increase the police staffing at National and Dulles airports?

ANSWER: An accelerated recruitment drive is currently in effect. Since the police special pay rate increases were announced on April 3, nine officers have entered on duty, seven more are scheduled to enter on duty by mid-June, and 27 candidates are in various stages of the employment and security clearance review process. We believe we will be able to bring our police force up to full staffing by the end of this fiscal year.

SENATOR D'AMATO: What is the FAA doing to advise and assist the New York Metropolitan area airports regarding tightening security measures at those heavily used facilities?

ANSWER: Our regional and field offices in New York advises and assists daily with the New York Metropolitan area airports on airport security.

AIRPORT RADAR SERVICE AREA (ARSA) AT MACARTHUR AIRPORT ISLIP, LONG ISLAND

SENATOR D'AMATO: Airport users at Islip MacArthur Airport have informed me of difficulties they are experiencing with the ARSA system instituted in December 1985. They cite long delays in gaining permission to enter the ARSA, clogged radio frequencies that prevent pilots from communicating with controllers, and potential safety hazards from pilots circling outside the ARSA or attempting to minimize delays by avoiding the ARSA airspace.

ANSWER: We acknowledge that delays have been experienced in the Islip area and more specifically that they have occurred for short periods of time (usually less than 2 hours), during peak traffic, of which some aircraft are encountering short delays (less than 10 minutes). To date these delays have been confined to fair weather days when there are a large number of recreational and training operations. Additionally, we are working with the local users to improve our services through the input provided.

SENATOR D'AMATO: What, if any, safety and performance improvements have been demonstrated by the Islip ARSA for the traveling public and users of the airspace.

ANSWER: Prior to implementing the first ARSA we conducted an extensive analysis of the benefits that might be derived from an ARSA at a typical airport. The most significant of these benefits was a substantial (62%) reduction of midair collision potential. Further evaluation of the study has convinced us that similar safety benefits will be realized at all ARSA locations and therefore we have not conducted an individual statistical analysis for the Islip Airport. To conduct such an analysis for each ARSA location would be prohibitively expensive.

SENATOR D'AMATO: Considering the March 6, 1986, GAO report and Teterboro hearings, how has the Islip ARSA reduced controller workload?

ANSWER: Since we are providing service to more aircraft, there has been an increase in controller workload. However, the type of service provided to aircraft in ARSAs actually reduces the amount of controller workload per aircraft.

SENATOR D'AMATO: How many additional controllers and how much increased funding will be required for the proposed re-sectorization and supplemental frequencies for the ARSA?

ANSWER: An additional sector will be installed to work aircraft in the Islip area in approximately 2 months. This additional sector and its associated frequencies were programmed for installation before the ARSA was proposed.

The New York TRACON plans to staff this sector on an as needed basis with present on-board personnel, therefore no additional controllers will be needed.

An unforeseen expense will be incurred for the relocating of a UHF transceiver to improve service in the Islip area. The estimated cost to move this equipment is approximately $20,000.

SENATOR D'AMATO: What feedback from the users has been received since the Islip ARSA implementation?

ANSWER: The majority of the feedback we have received from local users has been negative but constructive. Most of this feedback has been from a segment of general aviation consisting primarily of local flight training schools and recreational pilots. However, organizations representing business and commercial users have gone on record in comments to the docket and in letters to the Administrator strongly supporting the ARSA.

Through local user input at Islip, both via meetings and correspondence, we are looking objectively at suggestions to improve our performance and services. We have, in the past, accepted many positive ideas about the Islip ARSA and made extensive changes which resulted in a better configuration and service. We plan to continue our efforts in a positive direction.

SENATOR D'AMATO: Is the FAA considering "shrinking" the size of the Islip ARSA in response to the comments made by the users?

ANSWER: We are in the process of analyzing user feedback to determine what, if any, actions may be necessary to improve service. If our review reveals a need to "shrink" or otherwise modify the ARSA to meet its intended objectives, we will do so.

LOCAL NIGHTTIME NOISE COMPLIANCE STANDARDS

SENATOR D'AMATO: What is the FAA planning to do with respect to formulating a policy to address the special needs of air cargo transportation regarding local curfews on cargo aircraft?

ANSWER: FAA has proposed a revised policy dealing broadly with airport access and capacity, including noise restrictions. The proposed policy statement was published in the Federal Register on January 22, 1986, and three public hearings were held across the country in February and March. Air freight operators are not addressed specifically in that statement, but are included in the broad scope. We are now reviewing the public hearing records and written comments responding to that proposal, and will determine our next step accordingly.

SENATOR D'AMATO: Would encouraging the nighttime use of cargo aircraft provide a desirable spread of aircraft operations into off-peak hours, thus lightening the burdens of the system?

ANSWER: In general, yes. Cargo operations, and especially overnight freight operations, typically take place during late evening and early morning hours, which are generally off-peak periods. Unfortunately, these are also the most noise-sensitive hours for airport neighbors. In addition, cargo operators typically use older, noisier aircraft, which intensify the noise problems they create. As a result, many airports are considering use restrictions during nighttime hours, which will limit the ability of air freight operators to use those airports.

WOMEN'S FIRST INTERNATIONAL AIR SHOW - DULLES AIRPORT

SENATOR D'AMATO: As you know, I was disappointed that the Women's First International Air Show at Dulles, originally scheduled for this May 24-26, was postponed until a later date. I have met with the event's organizers and I am confident that a successful show can be held in the future. Given the historic nature of this event, I hope that the FAA will give the air show organizers its full cooperation in planning the show at a subsequent date.

Does the FAA plan to meet with the air show organizers to renegotiate an equitable contract that takes into account efforts and expenses that have already been expended?

ANSWER: We are willing to meet with everyone who wishes to conduct special events at the Washington airports and we have many such meetings. It should be recognized, however, that the remarkable growth of flight activity at Dulles is sharply narrowing the future opportunities to conduct major events at that facility.

SENATOR D'AMATO: Will the FAA provide any technical assistance necessary to plan and execute the preparations for the air show?

ANSWER: We have not been asked to do so and doubt that we would be able to accommodate such a request in the future.

SENATOR D'AMATO: Will the FAA agree to permit the air show to be held at Dulles during the Memorial Day period next year if so requested?

ANSWER: The FAA is willing to meet with the air show organizers. As indicated previously, the FAA is willing to discuss all special events at the Washington airports, including this one. Whether or not it would be accommodated would depend on those discussions.

Questions Submitted by Senator Chiles

NUMBER OF AIR TRAFFIC CONTROLLERS

SENATOR CHILES: Admiral Engen, the Department has a goal of having 14,480 Air Traffic Controllers onboard by the end of this year and this committee has urged the FAA to hire up to a level of 14,806. On March 31st of this year, you had 14,028 controllers, with 490 controllers scheduled to retire this year. In view of the fact that you are graduating only 70 controllers a month from your training school, how do you expect to reach even the secretary's goal of 14,480 by the end of this year?

ANSWER: The chart below shows our projection for the controller work force. It takes into account all gains and losses from the work force.

CONTROLLER WORK FORCE PROJECTION.
BASED ON DATA AS OF APRIL 30, 1986.

	APR	MAY	JUN	JUL	AUG	SEP
BEGINNING CWF	14028	13977	13983	14027	14294	14394
ACCESSIONS						
NEW HIRES	97	119	143	236	199	192
TRANSFERS TO CWF	60	44	48	177	104	110
TOTAL ACCESSIONS	157	163	191	413	303	302
LOSSES						
TRAINING LOSSES	68	76	59	51	69	36
NORMAL RETIREMENTS	40	44	44	56	50	76
TEMPORARY PROMOTIONS	9	9	11	9	8	8
REASSIGNMENT OUT OF CW	14	13	15	10	12	61
OTHER LOSSES	77	15	18	20	64	24
TOTAL LOSSES	208	157	147	146	203	205
PROJECTED END OF MONTH CWF	13977	13983	14027	14294	14394	14491
ACTUAL END OF MONTH CWF	14036					

NOTE: THE PROJECTION FOR THE CONTROLLER WORK FORCE WAS FORMULATED IN MID APRIL. OUR PROGRESS IN BUILDING THE CONTROLLER WORK FORCE IS AHEAD OF THE PROJECTION AS OF APRIL 30, 1986. THE PROJECTION IS BASED ON INFORMATION AND ESTIMATES SUPPLIED BY THE REGIONS.

SENATOR CHILES: In addition to the 490 controllers who will retire this year how many are being promoted out of the ranks of controller status? How many air traffic controllers are now in training, and what can be done to increase the number both recruited for training and successfully graduated into the ranks of air traffic controller?

ANSWER: During the building of our controller work force (CWF), we are monitoring the CWF as a whole. All discretionary modes from the CWF are being monitored and the chart below shows our projection for the CWF. It lists all promotions out of the CWF. Our recruitment and training graduates for the rest of FY 1986 will be sufficient to meet our work force goals.

CONTROLLER WORK FORCE PROJECTION.
BASED ON DATA AS OF APRIL 30, 1986.

	APR	MAY	JUN	JUL	AUG	SEP
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FISCAL YEAR 1986 SUPPLEMENTAL

SENATOR CHILES: Without the $80 million supplemental you have requested, the committee has been told that you will need to begin furloughing people in order to live within your overall budget levels. In fact, you had indicated that the furloughs would need to begin in mid-April, a date which we have already passed. We understand that air traffic controllers, safety inspectors and security personnel will be exempt from any furlough that may be necessary. Is that correct? If the supplemental continues to be delayed, at what point must you begin furloughs in order to ensure that you can live within funding levels?

ANSWER: FAA originally planned to begin furloughs in mid-April, in order to mitigate the impact on FAA employees. Two scenarios for furloughing FAA personnel have been considered. One scenario would be to exempt air traffic controllers, safety inspectors, maintenance technicians, and security personnel, which would lead to a furlough of approximately 40 compensable work days or two full months. Under this scenario, it would be very difficult to keep the agency running for this period of time without sufficient support personnel, such as payroll clerks, personnel specialists, or lawyers. The second scenario would be to exempt no employee category from furlough, which would result in all personnel being furloughed approximately 13 days.

However, the introduction of the $80 million supplemental request would alleviate the requirement for furloughs; therefore, we have delayed issuing furlough notices to employees, pending congressional action. If furloughs should become necessary, we expect to issue furlough letters to employees in June.

SENATOR CHILES: On April 24th, the Washington Post carried a story that in addition to the $80 million now pending, FAA is considering submitting a proposal to request an additional $50 million in FY 1986 funding. What decision has been made about the need for this additional request?

ANSWER: No additional funding is required in FY 1986 beyond the pending $80 million dollar supplemental request.

SUPPLEMENTAL GRANTS-IN-AID FOR AIRPORTS

SENATOR CHILES: As proposed by the Administration, the FAA supplemental is offset in part by a $40 million cut to the Grants-in-Aid for Airports program. FAA has essentially frozen additional grants to airports across the country because of this proposed reduction. As you know, neither the House nor Senate has agreed to accept the cut in airport grants to fund the supplemental. When can we expect you to lift the freeze in making and awarding additional Grants-in-Aid for Airports?

ANSWER: Based on the Administration's FY 1986 FAA Supplemental Proposal, which would have reduced AIP Grants by $43.7 million, a deferral and OMB reapportionment has been issued reducing FAA's Grant Program. Upon enactment of substitute legislation which does not reduce the AIP Grant obligational authority, FAA can immediately request reapportionment of the deferred $43.7 million and revise the Grant program accordingly.

AIRPORT SECURITY

SENATOR CHILES: The week of April 21st, Assistant Secretary Matt Scocozza, from the Department of Transportation, announced that there were 17 unsafe airports in Europe and the Middle East. In view of the fact that the Secretary of Transportation, in conjunction with the Secretary of State, has the authority to prohibit flights from unsafe airports, what actions have been taken in view of the announcement by Assistant Secretary Matt Scocozza. In last year's supplemental, we provided $2 million to hire an additional 200 Air Marshals. How many of these positions have been filled? Are armed Air Marshals currently being used to fly aboard scheduled service?

ANSWER: The 17 airports that Mr. Scocozza mentioned were airports that FAA has identified that require U.S. air carriers serving them to implement extraordinary security procedures. The airports were selected not because of being "unsafe" but because of the current threat estimate for the country. These estimates change quickly in today's environment. While there is obviously more danger to Americans traveling overseas today than there was 1 year ago, there is no one location Americans should automatically avoid. The Office of Civil Aviation Security is in the process of hiring to fill the 200 new positions authorized by Congress. A number of the new positions have been used to hire and train Federal Air Marshals. Federal Air Marshals are highly trained and are flying aboard scheduled service.

SENATOR CHILES: I noticed in your budget as of March 31st, you had 326 security positions on aboard and that your 1987 budget would fund 426 security positions. How will these additional positions be used? Will any of them be targeted on the Air Marshal program?

ANSWER: The FAA will be hiring a number of additional Aviation Security Specialists who, as one element of their job, work as Federal Air Marshals.

SLOT TRANSFER RULES

SENATOR CHILES: Recently the Senate passed the Airport Transfer bill which included an amendment to prohibit further implementation of the rule which went into effect on April 1 permitting airlines to buy and sell slots for landing rights at the airports around the country. Is FAA continuing to permit the implementation of this rule?

ANSWER: The rule, which was issued by the Secretary of Transportation on December 16, 1985, continues in effect. Most slot transfers continue to be equal trades at the same airport, which were permitted prior to the issuance of the new rule. Since April 1, 1986, FAA has received requests for approval of only 14 transactions involving 52 slots (out of a total of approximately 4,600 slots at the four high density airports).

AIRPORT TRANSFER

SENATOR CHILES: During the debate on the airport transfer bill, it was noted several times that the Department of Transportation feels that from $500 to $700 million needs to be invested in the two airports in order that they can continue to meet traffic demands. In your budget request for fiscal year 1987, only $7 million of capital improvements are requested for the two airports. In view of the enormous need as stated by the Department for capital improvements at the airports, why is only $7 million requested? What was the Department's request to OMB? Please supply, for the Committee, how the Department would recommend that this $500 to $700 million be spent for the two airports. If the airport transfer legislation does not pass, how does the Department propose to meet this half billion dollars of capital requirements?

ANSWER: Pending the outcome of the airport transfer legislation, we are requesting Federal funding only to the extent necessary to continue present operations and provide for required ongoing repair and rehabilitation work. We believe that the responsibility for the funding of major new capital development at both airports should be transferred to the new airport authority. The Department's request to OMB was for $10.3 million. OMB deleted two projects--construction of additional public parking at Dulles and rehabilitation of roads at National.

The recommendations of the Department for capital development at National and Dulles are contained in a capital needs study which was prepared in response to House Report 99-256. Copies of this report have previously been provided to the Senate Committee on Appropriations and the Transportation Subcommittee, and a copy is herewith provided for the record.

No decision has been reached on how to best meet the half billion dollars of capital requirements if the airport transfer legislation does not pass. It is quite clear to us that the proposed transfer is the best and quickest way to meet those capital needs and we are encouraged that the Senate has strongly supported the transfer legislation.

(CLERK'S NOTE: The DOT report in response to House Report 99-256 accompanies an answer to a question which appears with questions submitted by Senator Andrews.)

NATIONAL AND DULLES AIRPORTS

SENATOR CHILES: On April 3rd, the Office of Personnel Management announced that they had approved adjustments to the salary classifications for security guards for National and Dulles airports and that the 134 guards would be provided from $727 to $3,360 pay increases. On the same date, I understand that there were only 105 guards on board, with 29 vacant positions and since January 1, 1985, 55 security guards have left. Have the salary increases actually been made? Is the additional money budgeted in the 1987 Budget to pay these salary increases?

ANSWER: The salary increases for airport police officers were effective on April 13, 1986. The $507,000 required to pay these salary increases in FY 1987 is not in the FY 1987 Budget.

FAA REPROGRAMMINGS

SENATOR CHILES: Within the $11 billion National Airspace System Plan Modernization Program, the Committee has been informed that the Host Computer Program has an excess of approximately $72 million of funding which the Department intends to propose for transfer to the Advanced Automation System (AAS) Program. What factors led to over funding for Host and why is the AAS Program spending faster than budget? When will the Committee receive a reprogramming request?

ANSWER: The HCP realized a savings associated with the award of the acquisition contract being less than anticipated. The major difference between the Government estimate and the purchase price was the cost of hardware. We cannot answer with absolute certainty as to why the IBM proposal was so much lower than its competitor, Sperry, or the Government estimate. The selling price of the Host computers was an internal business decision on the part of IBM. However, one of the objectives of the Design Competition Phase (DCP) was to reduce acquisition costs, and it is highly probable that the Host savings resulted from the fact that the DCP was successful.

A zero-sum supplemental will be sent to Congress in the very near future that requests $72.2 million be transferred from the Host Computer System in the Facilities and Equipment appropriation to the AAS in the Research, Engineering and Development appropriation. This additional amount is needed to fund changes in the AAS DCP contracts that are required to assure the development of an operationally acceptable system and provide a 6-month extension to allow for a realistic schedule for development associated with the changes.

SENATOR CHILES: The Committee has learned that approximately $20 million that was appropriated and planned for expenditure within the operations account was reclassified and financed through the Facilities and Equipment account. Eight million dollars of this relates to postage and the balance relates to lease communications facilities. this practice seems to undermine the Congressional appropriations process. Was notification, by letter, given to the Committee with regard to these "transfers" between the two accounts? In the future, I would like to request that such reclassifications not be done without notification and approval by the Committee.

ANSWER: In FY 1986, we do plan to use approximately $8 million of F&E funds to pay penalty mail requirements. The funds to do this will be provided through savings in completed projects. The decision to do this was made with the advice of counsel and in this particular instance notification by letter was not planned.

Approximately $11.7 million in F&E funding is planned for nonrecurring costs for lease/purchase of communications equipment. These equipments are being or are planned to be purchased with F&E funds and added to the FAA-owned equipment inventory. Prior to exercise of these purchase options, portions of the lease expenses are "F&E" rather than "Operations" in nature. Examples of costs include engineering and development costs, nonrecurring installation, and/or lease payments applied toward the purchase option. In this particular instance, letter notification will be given to the Committee. The reprogramming proposal which includes funding for this item is in final coordination and will soon be sent to the Committee.

DELAYED MAINTENANCE ITEMS

SENATOR CHILES: Also, at the PSI hearings last month, we heard that air carriers continue to fly even though they have numerous delayed maintenance items cited by the FAA. We heard testimony that pilots with knowledge of safety violations regarding delayed maintenance items are reluctant to complain or report because of fear of reprisals, not only from the airlines, but also from the FAA. What kinds of programs does FAA have in place so that pilots can report safety violations without fear of reprisals?

ANSWER: The Office of Aviation Safety established a confidential telephone line for reporting safety violations on July 1, 1985. This Aviation Safety Hotline has permitted pilots and others with knowledge of false record keeping or suspected Federal Aviation Regulations (FAR) violations to alert Federal officials without fear of recrimination. The Office of Aviation Safety maintains confidentiality by retaining the names of the callers in a separate secured file from the brief of the complaint that is sent to the appropriate investigator. If additional information or a signed statement from the witness is needed, the investigator contacts the Office of Aviation Safety. The identity of those callers is given to the investigator only if the caller has authorized the release of their name. If the caller is known and has requested confidentiality, staff from the Office of Aviation Safety contacts the caller directly to get the information. If a signed statement is needed, the caller has to make the determination of whether they want to be identified.

FIELD MAINTENANCE PERSONNEL

SENATOR CHILES: According to an AASHTO report early last month, the FAA had 11,000 technicians available to service 18,000 facilities in 1979, but today it has only 6,500 technicians to work on 22,000 systems. Also, your budget justification shows the overall level of field maintenance personnel declining 178 positions between 1986 and 1987 to a total work force level of 8,149. The committee has also been informed that 39% of these field maintenance people are over age 50 and 38% of them are eligible for retirement. It seems to me that continued maintenance at the level and quality that is required will soon become impossible. What steps is FAA taking to avoid a system breakdown due to lack of the necessary maintenance personnel?

ANSWER: The current technician work force level is sufficient to maintain NAS systems in a safe and efficient manner. However, by FY 1990, 38% will be eligible to retire, so our major problem is a prospective one. In order to avoid this projected shortage of skilled technicians and to assure current maintenance is properly performed, we have lifted the freeze for this group and allowed regional directors to backfill critical vacancies during the second half of this year. We are reviewing our needs closely and, within the resources of the agency, intend to make adjustments, where warranted, to provide the maintenance staff we require.

AIRLINE MERGERS

SENATOR CHILES: Admiral, as you know, there are a number of airline mergers pending--Eastern with Texas Air; Trans World Airlines with Ozark; and Northwest Airlines with Republic

Airlines. Concern has been raised that these consolidations are going to result in the U.S. having only 5 or 6 major air carriers, supported by 20 or 30 smaller, regional carriers. Concern has been expressed that this trend will eliminate the price competition that has resulted from deregulation. How does FAA view the trend towards the increasing number of mergers?

ANSWER: The FAA is certainly interested in the recent trends toward consolidations of the commercial aviation industry, particularly as it impacts capacity, congestion, and delay at major U.S. airports. Although the proposed mergers, if approved, could possibly result in some reduction in schedules at certain hub airports, the FAA believes that competitive pressures are such that likely reductions would be minimal, if they occur at all. At most, the proposed mergers might result in some redistribution of schedules between the affected carriers' hubs. However, such a redistribution would not materially change the number of aircraft in the NAS and, as such, the impact on air traffic control and FAA safety/surveillance is expected to be minimal.

TRAFFIC ALERT AND COLLISION AVOIDANCE SYSTEM (TCAS)

SENATOR CHILES: FAA is developing 2 Traffic Alert and Collision Avoidance Systems. The first and the least costly model is for General Aviation; the second and third systems are designed for air carriers. I understand that TCAS 2 provides the threatening aircraft's position and vertical avoidance maneuvers; while TCAS 3 recommends both vertical and horizontal maneuvers to avoid threatening aircraft. FAA plans to complete TCAS 2 development and plans to turn the program over to private industry. The Air Transport Association, Airline Pilots Association, Aircraft Owners and Pilots Association, the National Business Aircraft Association, and others feel that TCAS 3 should also be developed by FAA before FAA leaves the program.

Why, after developing the TCAS systems, does FAA not plan to make it mandatory for use in aircraft.

ANSWER: The TCAS, and its predecessor, Beacon Collision Avoidance System, were never planned to be mandated for use in aircraft and mandated TCAS use has no support within the aviation community. FAA involvement in Collision Avoidance Systems development began at the request of the U.S. aviation community, specifically that of the Air Transport Association (ATA). Since that time, the TCAS development has been generally supported by the aviation community especially by the airlines which have or are about to participate in TCAS II evaluation; Piedmont Airlines, United Airlines, and Republic Airlines. The FAA believes that participative support of this nature is indicative of the high level of interest within the airline community and that voluntary equipage by airlines will follow the Limited Installation Program flight evaluation.

SENATOR CHILES: Why is the FAA leaving the program before the TCAS 3 system is developed?

ANSWER: The FAA will develop the TCAS III system until it is fully tested and evaluated in FAA test aircraft. At this point, the FAA will present the Radio Technical Commission for Aeronautics (RTCA) with the technical data necessary to draft Minimum Operational Performance Standards (MOPS) and will assist in the MOPS development. Industry will then have the documentation necessary to develop the TCAS III commercially. The FAA does not plan to enter into a cost-sharing arrangement to develop commercial quality units as was done in the TCAS II Limited Installation Program (LIP). The FAA believes that the avionics industry should be able, in the post-TCAS II LIP time frame, to develop the TCAS III without Federal subsidy.

AUTOMATED WEATHER OBSERVING SYSTEM (AWOS)

SENATOR CHILES: FAA tests show that AWOS cannot meet 4 of the 9 FAA required elements--cloud height, visibility, precipitation, thunderstorms--of FAA's criteria for weather reporting. Since these are major factors in flight safety, why has FAA requested $20 million for AWOS procurement in FY 1987. Does it make good sense to procure AWOS systems as they still do not meet all of FAA's criteria?

ANSWER: The tests in question were conducted in 1984 during a 1-year demonstration of commercially available systems. These systems did not include a thunderstorm detection capability. The demonstration program test did identify limitation in the cloud height indicator and the precipitation detection sensors. Solutions to these limitations have since been identified and tested in conjunction with the U.S. Air Force and the National Weather Service (NWS). Several of the visibility sensors used in the demonstration system did perform acceptably. This performance was verified in a 6-month controlled test at Otis Air Force Base. The FAA is currently evaluating a stand-alone lightning sensor in St. Petersburg, Florida; Memphis, Tennessee; and Daytona Beach, Florida, as a thunderstorm detector. The latter sensor is part of the NWS test bed. This type sensor will be integrated into the AWOS if they are accurate, reliable, and cost-effective.

Thunderstorm detection, although highly desirable, is not essential to an acceptable operational AWOS. It makes good sense to procure AWOS's as they will increase the safety of flight at a large number of airports.

CHARTER CARRIER INSPECTION

SENATOR CHILES: All of us were shocked over the tragedy of the crash of an Arrow Air Military charter. Arrow Air was a charter airline with a spotty safety record which continued flying despite safety infractions until the tragic crash in Newfoundland with the resultant loss of 256 lives. Moreover, it appears that the Military Airlift Command (MAC) was not informed of Arrow Air's violations. Despite this tragedy, the Department of Defense says that it is going to continue to rely on charters because of cost considerations.

Has FAA experience shown that charter air carriers have a worse safety record and maintenance record than schedule airlines?

ANSWER: We consider all air carriers operating in accordance with 14 CFR Parts 121, 127, or 135, when conducting unscheduled operations, to be charter operations. Some large, scheduled air carriers operating in accordance with 14 CFR Part 121 may also conduct non-scheduled charter operations from time to time. The annual NTSB Safety Statistical Summary for U.S. Civil Aviation shows that the accident rate per 100,000 flight hours for nonscheduled operations of Part 121 air carriers is significantly higher than for scheduled operations in Part 121 air carriers.

I have attached a copy of the NTSB statistics showing scheduled and non-scheduled service under Part 121.

Airline maintenance records from the NATI program revealed some cases of poor maintenance practices. Although no attempt was made at the time to compare scheduled and nonscheduled operations, the Program identified shortcomings in the maintenance areas which we are continuing to pursue. The 1986 Flight Standards National Inspection Plan addresses special inspections of airlines operating under military charter and includes inspection of certified turbine engine repair stations. Attached is a copy of the 1986 Flight Standards National Inspection Plan.

(The information follows:)

ISSUED: 1/13/86 — REVISED: 1/21/86 (Tables 2 & 3, 1982 Data) — REVISED: 2/10/86 (Tables 1, 2, & 3, 1985 Data)

TABLE 1

ACCIDENTS, FATALITIES, AND RATES
AIR CARRIERS AND GENERAL AVIATION
1985 (PRELIMINARY DATA)

	Accidents					Accident Rates			
						Per 100,000 Aircraft Hours		Per 100,000 Departures	
	Total	Fatal	Fatalities	Aircraft Hours Flown	Departures	Total	Fatal	Total	Fatal
AIR CARRIERS									
Air Carriers Operating Under 14 CFR 121									
Scheduled	17	4	197	7,831,000	5,637,000	0.217	0.051	0.302	0.071
Nonscheduled	6	3	329	333,000	159,000	1.802	0.901	3.774	1.887
Air Carriers Operating Under 14 CFR 135									
Scheduled **	17	6	35	1,599,000	2,390,000	1.06	0.38	0.71	0.25
Nonscheduled	153	35	77	3,131,000	*	4.89	1.12	--	--
GENERAL AVIATION +	2742	490	937	32,023,000	*	8.56	1.53	--	--

+ Includes accidents involving aircraft flown under rules other than 14 CFR 121 and 14 CFR 135.

* Data not available.

** Rates are based on all accidents, including those involving operators not reporting traffic data to the Research and Special Programs Administration (RSPA).

Exposure data estimate sources: RSPA and FAA.

TABLE 2

ACCIDENTS, FATALITIES, AND RATES
U.S. AIR CARRIERS OPERATING UNDER 14 CFR 121
ALL SCHEDULED AND NONSCHEDULED SERVICE
(AIRLINES*)
1975–1985

	Accidents						Accident Rates					
							Per Million Aircraft Miles		Per 100,000 Aircraft Hours		Per 100,000 Departures	
Year	Total	Fatal	Fatalities	Aircraft Miles Flown #	Aircraft Hours Flown #	Departures #	Total	Fatal	Total	Fatal	Total	Fatal
1975	37	3	124	2,324,883,000	5,607,358	n/a	0.016	0.001	0.660	0.054	n/a	n/a
1976	23	2	38	2,419,281,000	5,806,729	4,921,166	0.010	0.001	0.396	0.034	0.467	0.041
1977	24	5	655	2,525,028,000	6,039,707	5,044,859	0.010	0.002	0.397	0.083	0.476	0.099
1978	22	5	160	2,608,382,000	6,234,626	5,112,290	0.008	0.002	0.353	0.080	0.430	0.098
1979	29	5	354	2,859,138,000	6,878,911	5,486,202	0.010	0.002	0.422	0.073	0.529	0.091
1980	19	1	1	2,924,234,000	7,067,468	5,479,352	0.006	0.0003	0.269	0.014	0.347	0.018
1981	26	4	4	2,798,575,000	6,810,255	5,329,049	0.009	0.001	0.382	0.059	0.488	0.075
1982	19	4	234	2,804,475,000	6,702,251	5,094,208	0.007	0.001	0.283	0.060	0.373	0.079
1983	25	4	15	2,922,583,000	6,930,564	5,167,067	0.009	0.001	0.361	0.058	0.484	0.077
1984	18	1	4	3,241,088,000	7,685,686	5,544,604	0.006	0.0003	0.234	0.013	0.325	0.018
1985P	23	7	526	3,428,000,000	8,164,000	5,796,000	0.007	0.002	0.282	0.086	0.397	0.121

P Preliminary data.

* Includes accidents involving deregulated all cargo air carriers and commerical operators of large aircraft when those accidents occurred during 14 CFR 121 operations.

# Exposure data estimate source: RSPA

TABLE 3

ACCIDENTS, FATALITIES, AND RATES
U.S. AIR CARRIERS OPERATING UNDER 14 CFR 121
ALL SCHEDULED SERVICE
(AIRLINES*)
1975–1985

	Accidents						Accident Rates					
							Per Million Aircraft Miles		Per 100,000 Aircraft Hours		Per 100,000 Departures	
Year	Total	Fatal	Fatalities	Aircraft Miles Flown #	Aircraft Hours Flown #	Departures #	Total	Fatal	Total	Fatal	Total	Fatal
1975	29	2	122	2,240,506,000	5,422,429	4,704,710	0.013	0.001	0.535	0.037	0.616	0.043
1976	21	2	38	2,319,997,000	5,587,776	4,832,664	0.009	0.001	0.376	0.036	0.435	0.041
1977	19	3	78	2,418,645,000	5,798,873	4,936,519	0.008	0.001	0.328	0.052	0.385	0.061
1978	20	5	160	2,520,165,000	6,031,743	5,015,939	0.008	0.002	0.332	0.083	0.399	0.100
1979	23	4	351	2,791,120,000	6,713,094	5,399,652	0.008	0.001	0.343	0.060	0.426	0.074
1980	15	0	0	2,816,303,000	6,797,578	5,352,927	0.005	0.	0.221	0.	0.280	0.
1981	25	4	4	2,703,219,000	6,571,288	5,211,867	0.009	0.001	0.380	0.061	0.480	0.077
1982	15	3	233	2,698,928,000	6,440,163	4,963,794	0.006	0.001	0.233	0.047	0.302	0.060
1983	23	4	15	2,808,566,000	6,649,009	5,033,906	0.008	0.001	0.346	0.060	0.457	0.079
1984	14	1	4	3,113,604,000	7,365,435	5,396,766	0.004	0.0003	0.190	0.014	0.259	0.019
1985P	17	4	197	3,296,000,000	7,831,000	5,637,000	0.005	0.001	0.217	0.051	0.302	0.071

P Preliminary data.

* Includes accidents involving deregulated all cargo air carriers and commerical operators of large aircraft when those accidents occurred during scheduled 14 CFR 121 operations.

# Exposure data estimate source: RSPA

TABLE 4

ACCIDENTS, FATALITIES, AND RATES
U.S. AIR CARRIERS OPERATING UNDER 14 CFR 121
ALL NONSCHEDULED SERVICE
(AIRLINES*)
1975–1985

Year	Accidents		Fatalities	Aircraft Miles Flown #	Aircraft Hours Flown #	Departures #	Accident Rates					
							Per Million Aircraft Miles		Per 100,000 Aircraft Hours		Per 100,000 Departures	
	Total	Fatal					Total	Fatal	Total	Fatal	Total	Fatal
1975	8	1	2	84,187,000	184,929	n/a	0.095	0.012	4.326	0.541	n/a	n/a
1976	2	0	0	99,294,000	218,953	88,502	0.020	0.	0.913	0.	2.260	0.
1977	5	2	577	106,383,000	240,834	108,340	0.047	0.019	2.076	0.830	4.615	1.846
1978	2	0	0	88,197,000	202,883	96,351	0.023	0.	0.986	0.	2.076	0.
1979	6	1	3	68,018,000	165,817	86,550	0.088	0.015	3.618	0.603	6.932	1.155
1980	4	1	1	107,931,000	269,890	126,425	0.037	0.009	1.482	0.371	3.164	0.791
1981	1	0	0	95,358,000	238,967	117,182	0.010	0.	0.418	0.	0.853	0.
1982	4	1	1	105,547,000	262,088	130,414	0.038	0.009	1.526	0.382	3.067	0.767
1983	2	0	0	114,017,000	281,555	133,161	0.018	0.	0.710	0.	1.502	0.
1984	4	0	0	127,464,000	320,251	147,838	0.031	0.	1.249	0.	2.706	0.
1985P	6	3	329	133,000,000	333,000	159,000	0.045	0.023	1.802	0.901	3.774	1.887

P Preliminary data.

* Includes accidents involving deregulated all cargo air carriers and commerical operators of large aircraft when those accidents occurred during nonscheduled 14 CFR 121 operations.

Exposure data estimate source: RSPA

TABLE 5

ACCIDENTS, FATALITIES, AND RATES
U.S. AIR CARRIERS OPERATING UNDER 14 CFR 135
ALL SCHEDULED SERVICE
(COMMUTER AIR CARRIERS #)
1975-1985

	Accidents						Accident Rates **					
							Per Million Aircraft-Miles		Per 100,000 Aircraft Hours		Per 100,000 Departures	
Year	Total	Fatal	Fatalities	Aircraft Miles Flown *	Aircraft Hours Flown *	Departures *	Total	Fatal	Total	Fatal	Total	Fatal
1975	48	12	28	160,465,760	936,312	1,455,563	0.30	0.07	5.13	1.28	3.30	0.82
1976	35	9	27	171,471,894	965,296	1,532,425	0.20	0.05	3.63	0.93	2.28	0.59
1977	44	9	32	201,282,211	1,150,250	1,740,502	0.22	0.04	3.83	0.78	2.53	0.52
1978	61	14	46	226,186,596	1,302,136	1,995,728	0.27	0.06	4.68	1.08	3.06	0.70
1979	52	15	66	192,492,029	1,169,921	1,883,705	0.27	0.08	4.44	1.28	2.76	0.80
1980	38	8	37	192,200,134	1,175,588	1,776,989	0.20	0.04	3.23	0.68	2.14	0.45
1981	31	9	34	193,000,863	1,240,764	1,835,144	0.16	0.05	2.50	0.73	1.69	0.49
1982	27	5	14	222,356,330	1,299,748	2,028,691	0.12	0.02	2.08	0.38	1.33	0.25
1983	19	3	12	253,572,010	1,510,908	2,328,430	0.07	0.01	1.26	0.20	0.82	0.13
1984	21	7	48	291,459,840	1,745,762	2,676,590	0.07	0.02	1.20	0.40	0.78	0.26
1985P	17	6	35	272,223,000	1,599,000	2,390,000	0.06	0.02	1.06	0.38	0.71	0.25

P Preliminary data.

* Exposure data estimates from RSPA.

** Rates are based on all accidents including some involving operators not reporting traffic data to the CAB.

# Includes accidents involving all-cargo air carriers when those accidents occurred during scheduled 14 CFR 135 operations. All-cargo air carriers no longer meet the CAB definition for "Commuters". May also include accidents involving carriers whose FAA operating specifications permit scheduled revenue operations under 14 CFR 135, but who have not received a RSPA fitness determination.

TABLE 6

ACCIDENTS, FATALITIES, AND RATES
U.S. AIR CARRIERS OPERATING UNDER 14 CFR 135
NONSCHEDULED OPERATIONS
(ON-DEMAND AIR TAXIS)
1975-1985

Year	Accidents		Fatalities	Aircraft Hours Flown *	Accident Rates Per 100,000 Aircraft Hours	
	Total	Fatal			Total	Fatal
1975	152	24	69	2,526,271	6.02	0.95
1976	137	31	100	2,703,203	5.07	1.15
1977	158	31	118	3,304,220	4.78	0.94
1978	198	54	155	3,545,753	5.58	1.52
1979	160	30	77	3,684,321	4.34	0.81
1980	171	46	105	3,617,724	4.73	1.27
1981	157	40	94	2,895,827	5.42	1.38
1982	132	31	72	3,256,763	4.05	0.95
1983	140	27	62	2,574,883	5.44	1.05
1984	146	23	52	3,079,007	4.74	0.75
1985P	153	35	77	3,131,000	4.89	1.12

P Preliminary data.

* Source of estimate: FAA

TABLE 7

ACCIDENTS, FATALITIES, AND RATES
U.S. GENERAL AVIATION +
1975-1985

	Accidents				Accident Rates Per 100,000 Aircraft Hours	
Year	Total	Fatal	Fatalities #	Aircraft Hours Flown **	Total	Fatal
1975	3995	633	1252	28,799,000	13.87	2.20
1976	4018	658	1216	30,476,000	13.18	2.16
1977	4079	661	1276	31,577,508	12.92	2.09
1978	4216	719	1556	34,887,178	12.08	2.06
1979	3818	631	1221	38,641,268	9.88	1.63
1980	3590	618	1239	36,401,663	9.86	1.70
1981	3500	654	1282	36,803,200	9.51	1.78
1982	3231	589	1182	32,094,623	10.07	1.84
1983	3060	554	1081	31,047,548	9.86	1.78
1984	3011	545	1114	31,510,063	9.56	1.73
1985P	2742	490	837	32,023,000	8.56	1.53

P Preliminary data.

+ All operations other than those conducted under 14 CFR 121 or 14 CFR 135.

Includes air carrier fatalities when in collision with General Aviation aircraft.

** Source of estimate: FAA.

TABLE 8

FATAL ACCIDENTS AND FATALITIES
U.S. AIR CARRIERS OPERATING UNDER 14 CFR 121
ALL SCHEDULED SERVICE
(AIRLINES)
1985 (PRELIMINARY DATA)

Date	Location	Operator	Service	Aircraft	Fatalities Pasgr	Fatalities Crew	Fatalities Other	Fatalities Total	Total Aboard	Reported Type of Accident
1/1	La Paz, Bolivia	Eastern	Pasg	B-727	21	8	0	29	29	Flew into a mountain during descent from cruise altitude.
5/31	Nashville, TN	General Aviation, Inc.	Cargo	Grumman G-159	0	2	0	2	2	Crashed when engine failed during climbout.
8/2	Dallas, TX	Delta	Pasg	L-1011	128	8	1	135	163	Crashed on airport during final approach through wind shear.
9/6	Milwaukee, WI	Midwest Express	Pasg	DC-9	27	4	0	31	31	Crashed shortly after takeoff when one engine failed and the second lost power.

TABLE 9

FATAL ACCIDENTS AND FATALITIES
U.S. AIR CARRIERS OPERATING UNDER 14 CFR 121
ALL NONSCHEDULED SERVICE
(AIRLINES)
1985 (PRELIMINARY DATA)

Date	Location	Operator	Service	Aircraft	Fatalities Pasgr	Fatalities Crew	Fatalities Other	Fatalities Total	Total Aboard	Reported Type of Accident
1/9	Kansas City, KS	TPI Int'l Airways	Cargo	Lockheed L-188A	0	3	0	3	3	Crashed during go-around after aborted instrument approach.
1/21	Reno, NV	Galaxy Airlines	Pasg	Lockheed L-188A	64	6	0	70	71	Crashed shortly after takeoff during attempt to trouble-shoot severe vibration.
12/12	Gander, Canada	Arrow Airways	Pasg/ Cargo	DC-8	248	8	0	256	256	Settled into trees just beyond departure end of takeoff runway.

TABLE 10

FATAL ACCIDENTS AND FATALITIES
U.S. AIR CARRIERS OPERATING UNDER 14 CFR 135
ALL SCHEDULED SERVICE
(COMMUTER AIR CARRIERS)
1985 (PRELIMINARY DATA)

					Fatalities					
Date	Location	Operator	Service	Aircraft	Psgr	Crew	Other	Total	Total Aboard	Reported Type of Accident
2/4	Soldotna, AK	North Pacific Airways	Pass/Cargo	Beech 65	7	2	0	9	9	Collided with trees 1.5 miles from airport during VOR approach.
2/6	Altus, OK	Altus Airline	Pass	Cessna 402	1	1	0	2	2	Crashed during approach to emergency landing with engine fire.
4/26	New York, NY	New York Helicopter	Pass	Aerospatiale SA-360C	1	0	0	1	8	Crashed into river, 50 feet from heliport, following takeoff.
7/18	San Juan, PR	Flamenco Airways	Pass/Cargo	Piper PA-32	0	0	1	1	2	Collided with vehicle, killing ground crewman.
8/25	Lewiston, ME	Bar Harbor Airlines	Pass	Beech 99	6	2	0	8	8	Struck trees short and to the right of runway during instrument approach.
9/23	Grottoes, VA	Henson Aviation	Pass	Beech 99	12	2	0	14	14	Flew into side of ridge during instrument approach.

1986 FLIGHT STANDARDS NATIONAL INSPECTION PLAN

1. PURPOSE. This notice implements the 1986 Flight Standards National Inspection Plan (NIP) for special, indepth inspections of selected air carriers and air agencies.

2. DISTRIBUTION. This notice is distributed to the branch level in the Office of Flight Standards; to the division level in the Offices of Budget, Chief Counsel, and Personnel and Technical Training; to the branch level in the regional Flight Standards Divisions; to the division level of the Regional Counsel, Personnel Management and Human Resource Management Divisions, Budget, and Aircraft Certification Divisions in the regions; to all Flight Standards Field Offices; and to the Flight Standards Branch at the Aeronautical Center.

3. ACTION. The Air Transportation Division (AFS-200), Aircraft Maintenance Division (AFS-300), regional Flight Standards Divisions, and Flight Standards field offices will take action, as necessary, to ensure that the air carriers listed in Appendix 1, Air Carriers To Be Inspected, are inspected and reports are written in accordance with this notice and with the guidelines which will be distributed to inspection team leaders by the Office of Flight Standards. The repair station inspections listed in Appendix 2, Repair Stations To Be Inspected, are currently in progress and require no further action on the basis of this notice.

4. BACKGROUND. On January 14, 1986, the Secretary of Transportation directed the FAA to conduct special inspections of airlines operating under military charter. These inspections are part of the Flight Standards National Inspection Plan for 1986. This plan calls for special, indepth inspections of air carriers and air agencies. It is a first step toward institutionalizing the inspection methodology developed for the 1984 National Air Transportation Inspection Program. There are two specially targeted areas of emphasis in the 1986 NIP. They are: (1) inspection of certified turbine engine repair stations, and (2) inspection of Federal Aviation Regulations (FAR) Part 121 air carriers which derive significant income from military charter flights. Repair station inspections, which are listed in appendix 2, are in progress and are directed by previously published instructions from the Office of Flight Standards. On January 14, regional Flight Standards division managers met in Washington, D.C., for an initial NIP scheduling conference.

5. AUTHORITY. The inspections required by this notice are conducted under the authority of Sections 313, 605, and 609 of the Federal Aviation Act of 1958, as amended.

6. APPLICABILITY. This notice applies to all Flight Standards management and inspector personnel who are assigned FAR Part 121 air carrier work functions and to Regional Counsel.

7. OBJECTIVE. The objective of the NIP is to ensure that air carriers and air agencies listed in this notice are in compliance with the FAR and to correct deficiencies as necessary.

8. CONCEPT OF OPERATIONS. The inspections required by this notice will be scheduled by regional Flight Standards division managers, or their representatives, at scheduling conferences which will be convened by the Office of Flight Standards. During scheduling conferences, start and finish dates for each inspection will be established; and an inspection team leader will be selected from a region other than the region holding the certificate of the air carrier to be inspected. Inspection team members will also be selected from regions other than the certificate-holding region to the maximum practicable extent. Changes to start and finish dates or substitution of team leaders, subsequent to scheduling conferences, must be approved by the Office of Flight Standards. Changes to inspection team membership must be coordinated directly with the inspection team leader. Interregional coordination of support and personnel requirements will be accomplished through designated regional NIP coordinators.

9. GENERAL RESPONSIBILITIES.

a. The Office of Flight Standards will develop, publish, and distribute directives to accomplish the NIP. The Director of Flight Standards will convene conferences, as necessary, to schedule inspections of air carriers listed in appendix 1. The director will appoint an evaluation officer who will serve as the headquarters focal point for the NIP. The director will appoint representatives from AFS-200 and AFS-300 to assist the evaluation officer. These representatives will serve directly under the Deputy Director of Flight Standards in the absence of the evaluation officer.

b. The Flight Standards evaluation officer will provide general guidance to regional NIP coordinators and will provide technical support to inspection teams. The evaluation officer will keep headquarters management fully apprised of the status of the NIP and of inspection findings. The evaluation officer will coordinate technical support for inspection teams as requested by inspection team leaders. For specially identified inspections, the evaluation officer will coordinate for the use of contract auditors in conjunction with the Records Examination Assistance Program.

c. Regional Flight Standards division managers are responsible for the inspection of air carriers certificated in their respective regions and listed in appendix 1. Division managers, or their representatives, will attend scheduling conferences for the purpose of implementing the concept of operations described in paragraph 8. Additionally, division managers will: (1) designate NIP coordinators; (2) identify cadres of aviation safety inspectors (operations and airworthiness) to participate in NIP inspections and provide lists of these inspectors as requested by the Office of Flight Standards; (3) ensure that the budgetary and logistic requirements of inspection teams are fully supported from regional resources; (4) ensure that inspection team leaders are briefed on the current status of the air carrier to be inspected; (5) ensure that the air carrier is notified of inspection dates and requirements; and (6) establish a management system to ensure that discrepancies discovered during inspections are corrected.

d. Regional NIP coordinators will be authorized to make decisions and act on behalf of the division manager to ensure completion of NIP inspections and to ensure regional compliance with the requirements of this notice. The NIP coordinator will direct and coordinate all regional inspection activities in support of the NIP. NIP coordinators are authorized to coordinate directly with each other and with inspection team leaders in accordance with the provisions of paragraph 8.

e. Inspection team leaders will plan and conduct NIP inspections in accordance with the guidelines distributed by the Office of Flight Standards, and inspection reports will be written in accordance with these guidelines. Team leaders will be responsible to the division manager of the certificate-holding region and will keep the division manager and headquarters evaluation officer apprised of the status of inspections. Team leaders will obtain legal counsel as soon as the probability of a significant or complex enforcement action is identified. For all enforcement cases, team leaders will ensure that the inspection team collects sufficient evidence to support the case.

f. Flight Standards field offices will adjust work programs as necessary to support the NIP. NIP work functions may be credited toward national work program guideline requirements. Field offices will provide aviation safety inspectors for participation in NIP inspections and will provide administrative and logistic support as necessary. Managers of host field offices will ensure that inspection teams are briefed on local facilities, operational restrictions, and other local requirements.

g. Principal operations inspectors, principal maintenance inspectors, and principal avionics inspectors will fully support inspection team leaders during the planning and execution of NIP inspections involving their air carrier. Principal inspectors will ensure that discrepancies discovered during the inspection are adequately corrected in a timely manner and that enforcement action is initiated when appropriate.

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h. Regional Counsel will assign an attorney to an inspection team when significant or complex enforcement action is probable. The inspection team attorney will provide onsite legal counsel as determined necessary by the team leader in coordination with the Flight Standards division manager and with the approval of the Regional Counsel of the certificate-holding region.

10. PREVIOUSLY SCHEDULED SPECIAL INSPECTIONS. Regions which have previously programmed indepth inspections may conduct those inspections provided they do not interfere with the region's capability to support the NIP.

Donald D. Engen

Donald D. Engen
Administrator

APPENDIX 1. AIR CARRIERS TO BE INSPECTED

PURPOSE. This appendix lists the air carriers identified as candidates for inspection as part of the National Inspection Plan for 1986. The Office of Flight Standards will convene scheduling conferences as necessary to establish start and finish dates for inspections and to identify inspection team leaders. Dates and team leaders are shown for inspections which were scheduled at the conference held on January 14.

LIST OF AIR CARRIERS TO BE INSPECTED.

Carrier	Region	Start/Finish	Team Leader
1. Airlift International, Inc.*	ASO		
2. AirPac, Inc.	AAL		
3. Aloha Airlines, Inc.	AWP		
4. American Airlines, Inc.	ASW		
5. American Trans Air, Inc.	AGL	Feb 24/Mar 17	G. Lopez
6. ANA Limited	ANE		
7. Arrow Air, Inc.	ASO	Jan 20/Feb 10	V. LePera
8. Brennan and Hargreaves, Inc.	ANE		
9. Britt Airways, Inc.	AGL		
10. Continental Airlines, Inc.	AWP		
11. Delta Air Lines, Inc.	ASO		
12. Eastern Air Lines, Inc.	ASO	Dec 2/Feb 7	G. Mattern
13. ERA Helicopters, Inc.	AAL		
14. Evergreen Air Lines, Inc.	ANM	Mar 3/Mar 31	V. LePera
15. Federal Express, Corp.	ASO		
16. Flying Tiger Line, Inc.	AWP		
17. Hawaiian Airlines, Inc.	AWP		
18. Jet America Airlines, Inc.	AWP		
19. Jet Charter	ASO		
20. Lincoln Airlines, Inc.	ANE		
21. MarkAir	AAL		
22. Mesaba Airlines, Inc.	AGL		
23. National Airlines*	AEA		
24. New York Air	AEA		
25. Northwest Airlines, Inc.	AGL		
26. Ozark Air Lines, Inc.	ACE		
27. Pacific Southwest Airlines	AWP		
28. Pan American World Airways, Inc.	ASO	Feb 10/Mar 10	J. Martin
29. People Express Airlines	AEA		
30. Piedmont Airlines	ASO		
31. Provincetown Boston Airlines, Inc	ANE		
32. Reeve Aleutian Airways, Inc.	AAL		
33. Rich International Airways, Inc.	ASO	Feb 3/Feb 21	J. Brown
34. Ryan International Airlines	ACE		
35. Sea Airmotive, Seair	AAL		
36. Simmons Airlines, Inc.	AGL		
37. Skystar International, Inc.	AEA		
38. Southern Air Transport, Inc.	ASO		
39. Southwest Airlines Co.	ASW		

40. Tower Air, Inc.	AEA	Feb 10/Mar 10	J. Martin
41. Transamerica Airlines, Inc.	AWP	Mar 17/Apr 7	J. Brown
42. Trans World Airlines, Inc.	ACE		
43. United Airlines, Inc.	ANM		
44. USAir, Inc.	AEA		
45. World Airways, Inc.	AWP	Mar 24/Apr 14	J. Martin

* Inactive

APPENDIX 2. REPAIR STATIONS TO BE INSPECTED

PURPOSE. This appendix lists the turbojet engine repair stations identified as candidates for inspection as part of the National Inspection Plan for 1986. These inspections were scheduled prior to publication of this notice and require no further action as a result of this notice.

LIST OF REPAIR STATIONS TO BE INSPECTED.

Repair Stations	Location
1. Batch-Air, Inc.	Miami, FL
2. Aviall	Dallas, TX
3. Aerothrust Corp.	Miami, FL
4. Western Air Lines, Inc.	Los Angeles, CA
5. Continental Airlines, Inc.	Los Angeles, CA
6. United Airlines, Inc.	San Francisco, CA
7. Pacific Southwest Airmotive	San Diego, CA
8. Pratt & Whitney	Suddenton, CT
9. Eastern Air Lines, Inc.	Miami, FL
10. Delta Air Lines, Inc.	Atlanta, GA
11. Republic Airlines, Inc.	Atlanta, GA
12. Northwest Airlines, Inc.	Minneapolis, MN
13. Trans World Airlines, Inc.	Kansas City, MO
14. Pan American World Airways, Inc.	New York, NY
15. American Airlines, Inc.	Tulsa, OK
16, USAir, Inc.	Pittsburgh, PA
17. TRW	Cleveland, OH
18. Aviation Turbine Support	Miami, FL
19. Aero Technical Support	Miami, FL
20. M&M Aircraft Service	Miami, FL

SENATOR CHILES: In view of the problems revealed by the Arrow Air accident, is FAA giving added emphasis to the inspection of charter airlines? Will these inspections go beyond FAA's normal procedures? Has an adequate communication procedure been established to notify DOD of FAA findings of inspection deficiencies?

ANSWER: In the National Inspection Plan (NIP), the FAA is giving added emphasis to the inspection of military charter airlines. These inspections are performed by special teams of inspectors using detailed procedures to examine all aspects of the airline's operation. These indepth inspections go beyond normal, routine surveillance. Because of the importance of these inspections to the Department of Defense, FAA staff ensures that the Military Airlift Command (MAC) is informed of inspection schedules so that MAC personnel may attend inspection exit briefings during which inspection findings are discussed in detail.

INSPECTION OF PUBLIC AIRCRAFT

SENATOR CHILES: I understand that state and local governments own and operate almost 6,000 so-called "public aircraft." Under existing law, these aircraft are exempt from almost all FAA regulations. This would appear to allow aircraft in the sky which are in a sort of no-man's land as far as safety is concerned. The National Transportation Safety Board has raised questions about the possible safety threat of this situation.

Have there been serious accidents involving public aircraft?

ANSWER: As of the end of April, aircraft registration data showed a total of 4,040 aircraft registered to state, local, and the Federal Government, as well as academic institutions such as the University of Ohio.

From 1983 to the present, there have been 32 public use aircraft accidents reported by the NTSB. Two of the most serious involved midair collisions. Two Michigan National Air Guard F4C's (public aircraft) were ordered to intercept an unidentified aircraft (Beech D-55) that had penetrated warning area W-122. One F4C collided with the Beech D55, killing the seven persons onboard (1/9/83).

On July 22, 1983, a Cessna U206G collided with a B-206A police helicopter over Brooklyn, New York, resulting in four fatalities and two serious injuries.

SENATOR CHILES: What is the rationale for the current exemption of such aircraft?

ANSWER: Public aircraft operate without complying with Federal Aviation Regulations because Title VI, Section 601, of the Federal Aviation Act of 1958 empowers the Secretary of Transportation to promote safety of flight only of "civil" aircraft. Title I Section 101 (14) of the act defines "Civil Aircraft" as any aircraft other than a public aircraft.

SENATOR CHILES: Does the FAA view this exemption as a safety hazard?

ANSWER: Since there is no requirement for the FAA or NTSB to investigate public use aircraft accidents, the information we and the NTSB have on them is not all encompassing. Therefore, it is difficult to judge whether these operations are in fact posing a safety hazard to the general public.

SENATOR CHILES: Does FAA favor extending agency authority to cover such public aircraft?

ANSWER: Again, given the lack of data concerning public aircraft operations, the FAA cannot justify a decision on agency authority over public aircraft at this time; however, we are willing to evaluate and comment upon any specific legislative proposals.

NEXRAD FUNDING

SENATOR CHILES: The development of a new state-of-the-art radar is an important feature of the FAA's National Airspace system. This year's budget proposes to fund this next generation weather radar (NEXRAD) entirely from the Airport and Airway Trust Fund. The budget proposes to transfer $47.5 million from the Trust Fund to NOAA to permit NOAA to pay its share. Isn't transferring funding to NOAA for the entire NOAA cost something of a raid on the Trust Fund?

ANSWER: A Department of Commerce cost-benefit study showed that NEXRAD will be very useful in providing severe weather information to aviation users which will increase aviation safety, reduce weather related delays, and save on fuel consumption. Because of these benefits for aviation users, the civilian share of NEXRAD cost is proposed from the Trust Fund.

NEXRAD FUNDING

SENATOR CHILES: What is the percentage of improvement in weather radar attributable to aviation and what to other beneficiaries? How is this percentage estimate derived?

ANSWER: A cost/benefit analysis conducted under the sponsorship of the Federal coordinator for Meteorological Services and Supporting Research indicates that the percentages of NEXRAD benefits allocated to each of the three sponsoring agencies is as follows:

FAA	48.2%
Air Force	37.0%
National Weather Service (NWS)	14.8%

The seemingly low benefits for NWS can be explained by noting that advance warning of such conditions as tornadoes, flash floods, and hail can help save lives but cannot avert damage to property such as houses and crops. It is also difficult to assign a monetary benefit to such things as more accurate weather forecasts.

SENATOR CHILES: Wouldn't it be fairer to those users who have paid into the fund, to have other beneficiaries covered under a direct appropriation to NOAA?

ANSWER: All other beneficiaries have not yet been determined.

SPECIAL NEEDS OF AIR CARGO

SENATOR CHILES: By a Notice of Proposed Policy issued on January 22, 1986, the FAA began an exploration to determine an appropriate Federal policy concerning airport access and capacity. To what extent is the FAA, in its deliberations, paying attention to the special problems affecting cargo movement? Is it not correct that cargo would be particularly adversely affected by nighttime local airport curfews? If so, is the FAA proposing to formulate a policy which will override efforts to impose local curfews on cargo airplanes? Since virtually all flights are interstate ones, should not the FAA, as the voice of the Federal Government, be the final arbiter of when curfews constitute an unacceptable burden on interstate commerce?

ANSWER: In response to the FAA's Notice of Proposed Policy, the Air Freight Association and individual air freight operations provided FAA with comments on the proposed airport access and capacity policy. The comments included a review of special problems affecting cargo movement, including impacts of nighttime airport curfews. The FAA will give appropriate consideration of these views.

The FAA is currently in the middle of deliberations to determine appropriate Federal policy concerning airport access and capacity. These deliberations include consideration of the impact of nighttime curfews on the air freight industry, as well as the question of when a curfew constitutes an unacceptable burden on interstate commerce. However, the FAA has not taken a position on the best solution to these problems to date.

ALLOCATION OF FUNDS FROM THE AVIATION TRUST FUND

SENATOR CHILES: Last year I asked the U.S. General Accounting Office to take a look at the allocations from the Aviation Trust Fund and determine if funds were being allocated fairly and equitably. Not surprisingly, it was determined by the GAO that there were some wide disparities in how funds have been allocated to the states and our airports over the last several years. The State of Florida receives back some 50 percent of each dollar it puts into the Aviation Trust Fund. Some of our larger airports receive less than 12 percent of what they contribute. Those large airports which contribute the most to the Aviation Trust Fund appear to receive the least percentage wise on their investment.

Equally alarming is the small percentage of Trust Fund monies actually going for Grants-in-Aid for Airports. Grants-in-Aid for Airports has varied between 15.1% and 21.4% of total aviation funds available. The proposed $712 million for airports in the FY 1987 budget is only 15.3% of the $4.644 billion in total aviation spending proposed. That seems like a very modest amount of investment considering the importance of airports in the aviation system and the constraints now being experienced because of limited airport capacity.

Has your staff addressed the problem with the allocation of Aviation Trust Fund monies which the GAO identified? If so, what do you think we should do about this problem?

ANSWER: The fact that disparities exist between the amounts of aviation tax funds collected and spent in a given area is not necessarily indicative of either a problem or an inequity.

The FAA's purpose is to promote and assure safe and efficient air travel. This involves a set of activities including regulation, provision of air traffic control service, provision of airport grants, and research and development regarding the aviation system. Under the concept that users should pay for the services provided to them, the Aviation Trust Fund has been and should continue to be used to pay for these activities.

Grants-in-Aid monies constitute a fraction of total FAA expenditures financed by the Trust Fund. Airport and states receive not only grants-in-aid to airports, but they also benefit from the provision of airport facilities and equipment, air traffic control services, flight services, and airway navigation equipment financed from the Trust Fund.

With regard to the overall allocation of FAA expenditures among the States, FAA allocates its funds based largely on technically determined requirements for providing safe and efficient air travel. For example, the Albuquerque Air Route Traffic Control Center serves a large volume of cross-country air travel, but the region served by the center generates relatively little Trust Fund revenue.

SENATOR CHILES: What do you think is a reasonable percentage allocation of Trust Fund monies to the Grants-in-Aid Program in light of the difficulties we are experiencing with airport capacity?

ANSWER: The existing grant program level of $800 million to $1 billion per year has worked well and the majority of essential airport safety and development needs have been met.

The DOT and FAA have been working to formulate a post-1987 legislative proposal which includes an adequate level of resources for the airport and airway system, including AIP. We have examined a variety of AIP programs to provide these resources and still be responsive to the Federal Government's need for budgetary restraint. These options include changes in overall program levels, apportionment, and special programs set aside. The focus is on meeting airport safety and critical capacity requirements. We have solicited input for aviation users at a conference to help develop a legislative package, but we have not yet settled on the best option. Trust Fund financing will be based on the concept that users should pay for services provided. This proposal will be presented to Congress in the near future.

SENATOR CHILES: What do you think we should change in the existing aviation authorizations to correct the problems which I have described?

ANSWER: As indicated, the FAA does not believe that there has been inadequate funding of the airport grant program from the Trust Fund. The only imbalance has been the occasional failure to sufficiently fund the FAA Operations appropriation from the Trust Fund.

AVIATION REAUTHORIZATION BILL

SENATOR CHILES: It is my understanding that the U.S. DOT has been working on a reauthorization bill for the aviation program and that a block grant program may be included:

1. Could you tell the Committee something about where you stand on the aviation reauthorization bill?

2. Is some form of block grant program being considered? If so, wht role would the states play in it?

3. What consideration is being given to a minimum apportionment to each state based on current population, enplanements, or contributions to the Aviation Trust Fund?

4. How do you feel about providing the states more flexibility in matching AIP funds so that state and local sponsors could "overmatch" Federal grants thereby stretching out the limited Federal funds available?

ANSWER: FAA is working with officials in the Office of the Secretary of Transportation to develop an appropriate reauthorization bill for aviation programs. One element which is being considered as part of that effort is whether a block grant program should be proposed, and, if so, what specific form it should take. We are also considering the basis for state apportionment of general aviation funds. Those issues remain under active consideration at the present time, so it is premature to speculate what decisions may finally be reached.

QUESTIONS SUBMITTED BY SENATOR BYRD

MAINTENANCE INSPECTORS

SENATOR BYRD: One area of concern to me is FAA maintenance inspections of charter, commuter, and regularly scheduled commercial airlines.

How many safety (maintenance) inspectors did you have on board in 1978, 1979, 1980, 1981, and 1982? I mean on board -- positions filled.

ANSWER: In 1978 there were 554 maintenance inspectors on board, 578 in 1979, 605 in 1980, 615 in 1981, and 600 in 1982.

SENATOR BYRD: How many safety inspectors do you currently have on board?

ANSWER: There are 1,358 safety inspectors currently on board.

SENATOR BYRD: How many are you asking for in fiscal year 1987? What would then be your total?

ANSWER: In fiscal year 1987, 138 additional safety inspector positions are requested. This would bring the total to 1,898.

SENATOR BYRD: Would you provide me with a breakdown of the number of maintenance inspectors currently on board, the number of carriers for which each is responsible, and the type of carrier; i.e., charters, regularly scheduled commercial carriers, and commuters?

ANSWER: There are 621 airworthiness inspectors currently on board. Of these 348 are general aviation and 273 are air carrier.

There are currently 3,955 air carriers for which FAA has certificate responsibility. Of these, 116 are Part 121 air carriers, 41 are air carriers with combined Part 121 and 135 operations specifications, 150 are Part 135 commuter air carriers, and 3,648 are Part 135 on-demand air carriers.

The Part 121 air carriers traditionally have large fleets. For example, United Airlines operates a fleet with over 350 turbojet aircraft all over the world. On this type of air carrier, the principal maintenance inspector usually has no other certificate responsibilities. In contrast, principal maintenance inspectors may be assigned to as many as 20 small air carriers. These smaller air carriers may operate a single aircraft in a seasonal, on-demand business. Such an operator does not require the surveillance activity or the day-to-day demand work that a larger air carrier requires.

When a principal inspector is responsible for several certificates, a less than optimal workload may be imposed on the inspector. This is a necessary condition until additional, authorized inspectors are hired and trained. As the inspector force is increased, FAA will make appropriate adjustments to work distribution.

SENATOR BYRD: Please provide a report on the training and certification required for maintenance inspectors.

ANSWER: Maintenance inspectors must complete formal academic training and on-the-job training. The academic training courses for new inspectors were recently restructured and revised. In January 1986, newly hired inspectors began receiving the new courses which include basic indoctrination, compliance and enforcement, and accident investigation.

On-the-job training begins immediately when the new inspector reports for duty. The inspector must complete all on-the-job training requirements in order to be promoted to the fully qualified level. There are approximately 30 job functions in which the maintenance inspector must demonstrate proficiency as part of on-the-job training. These job functions include certification of air carriers, certification of aircraft, airworthiness directives, ramp and spot inspections, and special flight authorizations and permits.

In addition to indoctrination training and on-the-job training, there are many job related courses which are part of an inspector's overall training profile. These courses are conducted by the FAA Academy and include aircraft maintenance and reliability programs, emergency evacuation and survival equipment, evaluation of aviation management systems, and various aircraft system courses. Also, FAA contracts with the aviation industry to provide training on state-of-the-art developments in technical areas. For example, recent course titles have included Digital Avionics Principals/System (Avionics) Course, Maintenance Steering Group-Course (MSG-3), and Principals of Composite Structures.

Training seminars are used to address special needs. When problems arise which indicate a need for refresher training, FAA has developed special airworthiness seminars to address these problems. For example, following the National Air Transportation Inspection (NATI) in 1984, certification and surveillance refresher seminars were conducted to deal with problems that surfaced during the NATI. Most recently, this material was modified to include problems which were identified during the inspection of turbojet engine repair stations conducted earlier this year.

In regard to the certification of maintenance inspectors, an FAA mechanics certificate with airframe and powerplant ratings is required for inspectors at grade levels GS-9 and above. An exception to this requirement exists for positions that involve primarily avionics equipment and inspection.

SENATOR BYRD: Would you please provide the dollar amount associated with each FTE (maintenance inspectors)?

ANSWER: $43,500.

AIR TRAFFIC CONTROL SYSTEM

SENATOR BYRD: Please provide me with the number of air traffic controllers currently on board, as well as the number of those controllers that are rated at the full-performance levels. How many controllers were on board at full performance levels in each of the fiscal years in 1981, 1982, 1983, 1984, and 1985?

ANSWER: The controller work force, as of April 30, 1986, is 14,036. There are 8,861 full-performance level controllers included in that number. The number of full-performance level controllers for September 30 (end of fiscal year) of each of the other years requested is as follows: 1981 4,745; 1982 - 5,493; 1983 - 6,724; 1984 - 7,580; 1985 - 8,315.

SENATOR BYRD: Of the number of air traffic controllers currently on board, how many of these positions are supervisory? What is the attrition rate of air traffic controllers? What is the "washout" rate for new controllers?

ANSWER: Of the air traffic controllers on board (Controller Work Force) none of the positions are supervisory.

The attrition rate of air traffic controllers is 40% at the Academy (10% dropout and 30% failures). After the Academy, of those who go into the terminal option, 9 to 12% will fail and of those who go into the center option, 30% will fail.

SENATOR BYRD: FAA's fiscal year 1987 budget calls for the hiring of 500 new air traffic controllers. In these calculations, have you taken into account the loss of controllers through attrition, retirement, or "washout?"

ANSWER: the total loss rate has been figured. The 500 controllers will be the net increase after all attrition.

SENATOR BYRD: I also am concerned about the number of technical maintenance personnel on board to take care of the maintenance of equipment at facilities. How many technical maintenance people did you have onboard in 1980, 1981, 1982, 1983, and 1984?

ANSWER: Current end-of-year onboard as of:

FY 1980	10,609
FY 1981	10,023
FY 1982	9,348
FY 1983	9,141
FY 1984	8,972

SENATOR BYRD: How many technical maintenance people do you currently have onboard?

ANSWER: The onboard technical work force as of 4/30/86 is 8,369. This includes technicians, engineers, and other related work categories.

SENATOR BYRD: Where are these individuals currently assigned?

ANSWER: These individuals are currently assigned to 22 Air Route Traffic Control Centers and 60 General NAS Sectors, and are physically located in all 50 states and various possessions.

SENATOR BYRD: How many personnel in this area do you expect to lose through attrition or retirement in fiscal years 1986, 1987, and 1988?

ANSWER: The projected number of personnel in the technician field that is estimated to retire in fiscal years 1986, 1987, and 1988 is 1,259.

SENATOR BYRD: How many personnel in the technical maintenance field do you project for fiscal year 1987?

ANSWER: We estimate our on board technician work force at slightly over 8,100 by end-of-year fiscal year 1987.

SENATOR BYRD: What is the dollar cost associated with each FTE in the technical maintenance area?

ANSWER: We estimate the cost of a field maintenance work force FTE at $45,200 for FY 1987.

DECLINING LEVEL OF PILOT EXPERIENCE

SENATOR BYRD: Commuter airlines are also experiencing significant levels of pilot turnover, as these pilots leave for jobs with the major carriers. Thus, pilots hired by commuter airlines have even fewer hours of experience.

Is the decline of pilot experience of concern to FAA? From FAA's point of view, what are the implications of such statistics on aviation safety?

ANSWER: Because of the growth of major carriers and commuters, the need for pilots has increased tremendously. In the past, airlines could afford to be selective concerning education and experience since there were many applicants for a few jobs. The situation has gradually reversed, and air carriers are now hiring less experienced pilots. This trend adds to the importance of air carrier training programs and requires air carriers to expend additional resources on training.

A high level of safety in air transportation is provided by existing experience requirements and high standards for training contained in the Federal Aviation Regulations. FAA is carefully monitoring the new aviation environment and is maintaining thorough surveillance to ensure that air carriers comply with the regulations.

SENATOR BYRD: Has the FAA developed or have plans to develop programs or criteria to address this problem? Please elaborate. Give a full picture.

ANSWER: During the latter part of the last decade, commuter airlines were becoming a large and viable segment of the aviation industry. They were flying larger and more sophisticated aircraft and carrying a significant number of passengers. The FAA determined that an indepth review of Federal Aviation regulations (FAR) Part 135, which governed the operations of commuter airlines, was necessary. As a result, Part 135 was revised to provide more stringent training and experience standards. In the revised rule, commuter pilots in command of turbojet or large aircraft were required to possess airline transport pilot (ATP) certificates rather than commercial pilot certificates. Since the ATP eligibility requirements specify a minimum of 1,500 hours of light time, this revision effectively raised the experience requirements from 1,200 hours for commuter pilots to 1,500 hours.

Currently, the FAA is attempting to enhance commuter air carrier training. In 1985, a team of industry and FAA training experts completed a study entitled A Systematic Determination of Skill and Simulator Requirements for Airplane Pilot Certification. This study became the basis for permitting the use of advanced training devices by Part 135 operators. This will provide a significant training enhancement for operators than cannot afford multimillion dollar simulators.

This year, FAA is beginning a complete review of training requirements in FAR Parts 121 and 135. The review will include an examination of the entire training system, particularly with respect to maneuvers and procedures, new aircraft technology, cockpit resource management, and meteorological factors such as wind shear. This project will involve aircraft manufacturers, airlines, aviation-oriented organizations, research organizations, and the FAA. This indepth project also includes a review of the regulatory experience requirements for various certificates.

In April, each FAA regional Flight Standards division manager was instructed to begin a program to prevent a decrease in crewmember performance as a result of declining experience levels of newly hired crewmembers. The program will include discussing this concern with each air carrier, reevaluating approved training programs in light of the experience levels of newly hired crewmembers, observing and conducting certification and proficiency checks to the maximum extent practical, and providing comprehensive FAA surveillance.

SENATOR BYRD: Does the FAA issue certificates to pilots who have completed FAA requirements for commercial pilot training?

ANSWER: An FAA inspector or designated examiner issues a certificate to pilots who satisfactorily meet the eligibility and qualification requirements specified in the FAR.

SENATOR BYRD: What are FAA requirements for certification for commercial pilots?

ANSWER: Pilots in command for major airlines and for commuter air carriers using turbojets and large airplanes are required to hold an airline transport pilot certificate, the highest certificate issued by the FAA. The certificate requirements are contained in 14 CFR, Part 61. Besides meeting basic eligibility for age, moral character, english language, education, and medical certificates, the pilot must pass a written test on aeronautical knowledge and possess certain aeronautical experience. This includes holding a commercial pilots license or equivalent and having at least 500 hours of cross-country flight time; 100 hours of night flight time; and 75 hours of actual or simulated instrument time, at least 50 hours of which are in actual flight. Included in the above requirements, the applicant must have at least 250 hours of flight time as pilot in command of an airplane or as co-pilot of an airplane performing the duties and functions or a pilot in command under the supervision of a pilot in command, or any combination thereof, at least 100 hours of which are cross-country time and 25 hours of which are night flight time.

SENATOR BYRD: Who at FAA issues the certificates for commercial pilots or does another party through contract or other arrangements with the FAA issue those certificates?

ANSWER: The airline transport pilot certificate is issued by FAA Aviation Safety Operations Inspectors or by highly qualified persons who are designated to act as representatives of the Administrator in examining and testing persons for the purpose of issuing airman certificates. These designations are effective for one year and may be renewed for additional periods of one year at the Administrator's discretion.

ANTI-TERRORISM

SENATOR BYRD: Since the American raid on Libya, there is increased concern that commercial airlines carrying American passengers will become targets of terrorist actions. There is also the likelihood that major airports in the United States, including Washington, D.C., are now prime targets. Some security personnel at National have appeared to be careless at times in checking baggage, and too interested in their personal conversations when baggage is going through the screening process.

What effect has the FAA undertaken to improve security at major airports in the United States.

ANSWER: Each U.S. airport subject to Federal Aviation Regulations (FAR) 107 has adopted and implemented a security program specifically designed to meet the security needs of that airport. The security program is constantly reviewed and revised as those needs change. Although there has been a tremendous increase in the attention paid to aviation security matters at international airports, we have not neglected U.S. airports. We have not formally changed the required frequency of inspections at U.S. airports; however, special assessments were conducted at airports with international operations. Some additional security measures have been adopted to include, for example, the elimination of the acceptance of curbside check-in for international flights.

SENATOR BYRD: According to a recent story in the Dallas Morning News, the FAA is now requiring that all pilots and flight attendants serving on international flights receive 8 hours of initial anti-terrorist training. The Morning News reports that the "anti-terrorist" training consists of watching 5 hours of video tapes, and 2 hours of written materials combined with some discussion time, and an open book test. Reading the newspaper, needlepoint, doing one's fingernails, and sleeping are the major activities during the showing of the video tapes. Indeed, one pilot reported to have noted that the only time he saw his instructor during the training was when the tapes were changed. Despite these criticisms, an FAA spokesman is quoted as saying that the quality of the training program has been "very high." "We have no reason to think that it wasn't effective."

Is this a reasonably accurate portrayal of this training program? Is FAA making an effort to redesign the program?

ANSWER: In its effort to expedite the training of all involved parties and to provide everyone with a total standardized training package, the Air Transport Association, with appropriate guidelines from the FAA, used the existing procedures in the development of the current program.

Interviews of people who had received the initial in-flight security coordinator/crewmember training revealed that employees of air carriers who used instructors and those employees who saw the material for the first time had a good opinion of the training. However, complaints regarding the ATA-prepared program have been received, and the majority of those complaints were from employees of air carriers who chose to use the program without providing an instructor and from employees who previously had seen the video tapes. These complaints are warranted. Presenting 5 hours of nonstop video tapes with no one to highlight the teaching points of each and no one to respond to questions is not a good teaching method. To maintain an interest in tapes that one has seen several times is also difficult. The tapes were old, but they all dealt with concepts and procedures that have worked in the past and continue to work today to prevent or deal with crimes against civil aviation.

All FAA-approved training programs are subject to periodic revisions and updates as necessitated by experience and the threat perceived from the data now collected by the FAA and freely provided by various agencies. The FAA is in the process of letting a contract to update all the security training material to industry for updating and revising required security training programs. Additions to the program are anticipated for the recurrent security training. We are committed to improving this training.

WEST VIRGINIA FACILITIES

SENATOR BYRD: I am also concerned over the continued staffing of air traffic control towers in West Virginia. Do you have any plans to close any of these towers in fiscal year 1986 or fiscal year 1987?

Do you have any plans to contract out any of those towers?

Do you have any plans to close any of the flight service stations in West Virginia in fiscal year 1986 or 1987?

Would you provide me with the current schedule for contract award to Elkins, West Virginia, for the consolidated automated flight service center?

ANSWER: We currently have no plans to close any tower in West Virginia.

Wheeling, West Virginia, was on the list to be contracted in FY 1986. However, due to an ongoing thorough analysis, the program is currently on hold, and during this time and pending the outcome of this analysis, Wheeling will continue to operate as an FAA tower.

Our current plan for the consolidated automated FSS at Elkins calls for a building occupancy date of March 1989. Commissioning will probably take place prior to the end of that fiscal year.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

SENATOR LAUTENBERG: At the end of Fiscal Year 1985, you had on board 13,998 people in what you define as the total controller work force. Of that 13,998, 1,466 were air traffic assistants who do not control traffic and are not therefore considered controllers. So, your total controllers on-board as of September 30, 1985, numbered 12,532. Is this correct?

ANSWER: That is correct.

SENATOR LAUTENBERG: Admiral, does your 14,480 goal refer to total work force or total controllers? If it refers to controllers, you have to go from 12,578 at the end of March to 14,480 by September. If the 14,480 refers to controllers and clerical personnel, you have to go from 14,028 to 14,480. Of that 14,480, how many are going to be real controllers?

ANSWER: Our goal for FY 1986 is 14,480 for our Controller Work Force (CWF) which includes Air Traffic Assistants (ATA's). Within the 14,480, the allocation for controllers is 12,876 and the allocation for ATA's is 1,604.

SENATOR LAUTENBERG: Your addition of full performance level controllers is striking. I'm informed by GAO that at several locations, Chicago, Seattle and elsewhere, the regional offices were reporting FPL's only if a controller checked out on all positions, both in the tower and radar facility which in those areas is located in the same building. Now if one is an FPL in the tower they are reported as an FPL whether they check out on radar positions or not.

To what extent does this change in calculating FPL account for the increase in FPL's from September 1985 to March 1986? How many such redesignations have there been?

ANSWER: There have been six facilities split into tower and terminal radar control this fiscal year. As the traffic increases, new positions of operation are needed. At some point, as the number of positions increases, it becomes operationally advantageous to split the facility into two separate facilities sharing the same management.

Each facility submits a request to split into two facilities based upon an operational analysis. The advantages are numerous, but the two main ones are budgetary - regrading the personnel (usually a lower grade in the tower than the TRACON) and operationally - a better operation with current controllers. The idea of splitting the areas of operation is no different than adding a new area in a Center as more and more sectors are added.

The overall impact in the numbers of FPL's is minimal. At the six facilities split this year, the total FPL level began the year at 244 and at the end of April was at 295. This increase was due mainly to normal training increases, not to the splitting of the facilities.

SENATOR LAUTENBERG: Admiral, as I see it you have two critical washout problems. Those who fail to make it through the Academy and those who washout in training. The GAO tells me that the failure rate at the Academy is 41-42%. Is that accurate?

ANSWER: This has been the combined loss rate, Academy failure 32.2%, Academy withdrawals 9.8% over the past 5 years.

SENATOR LAUTENBERG: Admiral Engen, the GAO Survey Found a large percentage of controllers and supervisors who intend to retire when their time is up. You have indicated that you expect no more than the historical pattern of retirements. I submitted a question on this issue to Secretary Dole. She said in reference to the historical pattern, "Under existing tax laws, we do not expect this situation to change." Now it appears the tax laws, as they affect Federal employees, will change as of 1988 is not sooner. Retirement benefits which are presently untaxed will be taxed for those retiring after a certain date. A number of Federal agencies expect heavy retirements because of this expected change. What problems do you see not only for Air Traffic Controllers, but for inspectors, technicians, etc.?

ANSWER: Should the tax law affecting Federal employee retirement benefits be revised as indicated, a significant increase in retirements among all FAA occupational specialties is anticipated. Neither the current appropriation, nor the budget request under consideration, include additional resources for the recruitment and training of new hires over and above previously planned levels. Those most likely to retire will be fully qualified personnel. Since most specialists require up to two years to become fully qualified, we anticipate that the effects of the proposed tax law changes would significantly impact FAA's capability to operate an unrestrained system over the next several years.

SENATOR LAUTENBERG: I'm particularly interested in getting more experienced controllers into the New York area. We've had a 15% growth in air traffic; 54.3% at Newark. Our FPL levels are down significantly from previous levels.

You instituted a cross-option program which would allow controllers to move to heavily used sectors without risking their status at their former location should they fail to make the grade in a new location. The GAO notes that of the 500 offers you got to participate in that program, only 30 expressed an interest in New York.

It has been suggested to me that one reason for the reluctance to move to New York is the high cost of living there. Have you explored the use of the cost of living differential for employees as a means of making New York more attractive as a location?

ANSWER: Current law provides for cost-of-living allowances only for areas outside of the continental United States. Therefore, legislation would be required to establish them for high cost areas like New York. Presently, the Office of Personnel Management has the authority to approve special salary rates for employees in selected occupations either worldwide or in particular geographical areas. However, such special rates can only be authorized where a significant recruitment or retention problem can be attributed to substantially higher salaries being paid by non-Federal establishments for similar work. Since our difficulties in attracting controllers to the New York area do not stem from this cause, we have not been able to make use of this provision to make salaries more attractive for controllers in the New York area.

TRUST FUND LEGISLATION ITEMS

SENATOR LAUTENBERG: Admiral, you are requesting legislative approvals for two items that change the way the Airport and Airway Trust Fund is administered: you want to charge the NOAA portion of the NEXRAD program to the Trust Fund and you want to cover 75 percent of your operations out of the Trust Fund. Is that correct?

ANSWER: The budget proposes NEXRAD be funded from the Trust Fund for the total civilian cost. The Air Force will pay the military share. NEXRAD will be very beneficial in providing severe weather information to aviation users, and it is for this primary reason the costs are proposed from the Trust Fund.

Our cost allocation studies reflect the users of the airport and airway system should pay 85 percent of the total system cost. With 75 percent of the Operations appropriation being proposed from the Trust Fund, this will allocate the cost of services to the users of the system, and will allow for 85 percent recovery of FAA's total budget from the Trust Fund.

SENATOR LAUTENBERG: In response to the tragic Delta Airlines crash in Dallas last summer that killed 135 people, you are moving forward to procure and install 15 modified - NEXRAD radar systems in an effort to combat wind shear. Is that correct?

ANSWER: Yes, the budget request includes funds to procure 15 modified NEXRAD systems, 14 operational systems and one support system. This will provide early wind shear detection at major airports representing about 40 percent of the passenger exposure to wind shear.

SENATOR LAUTENBERG: Admiral, on pages 20 and 21 of your statement, you indicate that you need funding to hire another 138 safety inspectors and to get 15,000 controllers by the end of FY 1987. You do not specify how many, if any, technicians FAA will add given its budget request for operations.

I've managed to examine the Frisbie memo which paints a picture of a crisis in your technician work force. It shows that 47 out of 70 technicians at the average air traffic control center will retire by 1993. It shows a rising workload and a decreasing work force resulting in a gap in the ability of FAA technicians to maintain equipment.

What have you done in response to the Frisbie report?

ANSWER: The current technician work force level is sufficient to maintain NAS Systems in a safe and efficient manner. It is true that 47 of 70 technicians at a typical ARTCC could retire by FY 1993. The workload in certain areas (mostly ARTCC's) is increasing whereas in other areas workload is declining with an overall downward trend. In the near future, if unchecked, attrition will outpace our productivity gains and that could constrain our ability to maintain the system to the same level as today. In order to avoid this projected shortage of skilled technicians, and to assure current maintenance is properly performed, we have lifted the freeze for this group and allowed a backfill of critical vacancies during the second half of this year. Over the next two fiscal years (FY 1987/1988), we plan to take steps to assure on board staffing is maintained at our fully funded FTE levels.

SENATOR LAUTENBERG: Admiral, legislation has been introduced to make it unlawful for any person to manufacture, distribute or import plastic firearms which are not detectable as a firearm by the standard security equipment used at our Nation's airports. The legislation calls on the Treasury to consult with FAA on controlling such firearms. Do you have a view on this legislation? Would you support such a ban in the interest of airport security?

ANSWER: The potential development of firearms which are not "detectable" by airport screening systems is a possibility that concerns us very much. The first line of defense against such weapons must be improvements in our screening systems, and we are undertaking research and development with a view toward achieving those advancements. On the other hand, there is no assurance that the future development and availability of new technology screening equipment will occur before the development of new technology firearms. For that reason, we have been consulting with the Bureau of Alcohol, Tobacco, and Firearms, which is responsible for developing and implementing firearms policy, and are considering what the best approach is to protect the traveling public.

PUBLIC ACCEPTANCE OF AVIATION SECURITY MEASURES

SENATOR LAUTENBERG: Admiral, in these days of terrorist threats, how do you think U.S. airports compare to their European counterparts in security measures? Do you think the American public will accept the close physical checks undertaken by El Al and other international carriers in the interests of security?

ANSWER: I believe our domestic security measures compare favorably with most European airports. We, of course, do not have the highly visible police/military personnel, equipped with semi-automatic weapons, patrolling visibly in our terminals. Our security, while less visible, is no less effective. If the domestic threat should escalate, we have the capability to further increase security up to the levels we now require of U.S. carriers in Europe and the Mid-East.

I believe the U.S. traveling public will accept whatever is needed to ensure the safety and security of U.S. aviation. Some U.S. carriers are in fact instituting security procedures domestically which go beyond current FAA requirements. These carriers are now using these highly visible security procedures as a marketing tool, something FAA security experts have been urging them to do for some time.

SENATOR LAUTENBERG: Admiral, in discussing controllers, inspectors and technicians, you noted that they would be exempt from furloughs under Gramm-Rudman cutbacks. I am interested in those positions which continue under threat of furlough as you try to cope with Gramm-Rudman. For example, legal and clerical support is threatened. Travel is cut back.

Isn't there a limit to how far you can cut in some of these areas before safety is compromised. After all, it's one thing to have a safety inspector to detect a violation of a safety standard, but, if you have no support staff, how do you effectively prosecute those airlines which cut corners?

ANSWER: There definitely are limits on how far we can cut back without affecting the safety of the system. As I have said before, all parts of the FAA are important in carrying out its mission. If we were to furlough, for an extended period, the staff that support the controllers, inspectors and technicians, it would be difficult, if not impossible, to maintain the margin of safety we now have. It is for this reason, to avoid the need for such a furlough, that we have requested a supplemental appropriations for fiscal year 1986.

SENATOR LAUTENBERG: Admiral, the case of air traffic controllers, you have a weeding out process. Some people don't make it through the academy, some wash out in training, some get assigned to jobs they can handle. Is there a similar weeding out process for safety inspectors and, if not, why not?

ANSWER: The weeding out process for aviation safety inspectors is different from the process used for air traffic controllers. The selection process for air traffic controllers is based on passing a written test. The process is not based on an applicant's prior experience. However, aviation safety inspectors are hired based on previous experience, education, and training. New inspectors begin training within 45 days of their employment. Each new inspector receives between 33 and 48 class days of formal instruction. The curricula of core job function courses were reviewed by teams of subject matter experts and revised to ensure accuracy, validity and applicability. Inspectors must also complete rigorous on-the-job training. During their first year, inspectors are in a probationary status and are carefully monitored. The results of training and work performance are used to make a determination on whether or not to retain probationary inspectors.

SENATOR LAUTENBERG: You indicate in your statement that your $825 million request for Facilities and Equipment will allow you to go forward with the National Airspace Plan in those areas critical to safety. What parts of the NAS Plan will not be undertaken because of this cut from the authorized level?

ANSWER: Procurement of the new Air Route Surveillance Radar (ARSR-4) to replace the current ARSR-1/2 and Military Primary Radar (FPS-20/60 series) will be deferred until the first part of FY 1988. Otherwise, the FY 1987 reduction was accommodated by a combination of deferring portions of programs that were nonschedule critical and by taking three programs off full funding which allowed other critical programs to be included in the budget request. Examples of the programs which had portions deferred to future budgets are such projects as replace/modernize Airport Traffic Control Facilities, Direction Finder Network Program, Airport Surveillance Radar (ASR-7/8) Leapfrog programs, Remote Maintenance Monitoring program, and the National Radio Communications System (NARACS).

Senator LAUTENBERG. We are going to adjourn the subcommittee hearing now. The next hearing will be Tuesday, May 13, in this same room. Thank you for being with us, Admiral, and your colleagues.

[Whereupon, at 12:30 p.m., Thursday, May 8, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, May 13.]

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